

OVERSEAS NEWS

Moscow decrees Communist Party democracy programme

By John Lloyd in Moscow
AN unprecedented programme of renewing, democratising and slimming down the Soviet Communist Party has been decreed in resolutions published over the weekend...

The means of production "belonged to nobody" and ensured "a genuine economic independence and responsibility of personnel, work collectives and a direct link between the earnings of people and the end results of their work".

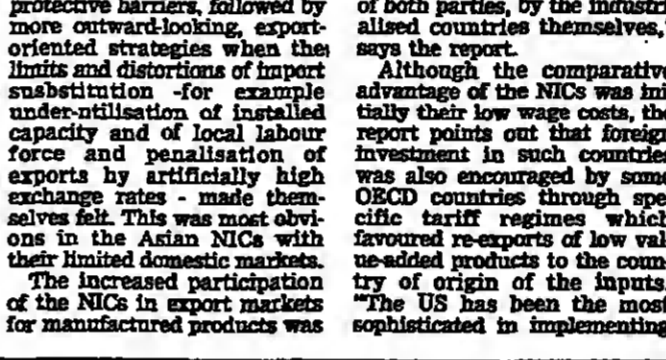
Advanced economies face fresh challenge

A new wave is following the newly-industrialised nations, Robin Pauley reports

NOTHING succeeds like success. Twenty years ago the world's major advanced economies improved their relative strengths by utilising the comparative advantage available, particularly through cheap and plentiful labour...

Latin American ones. The NICs increased their share of total market economies' GDP from 3.5 per cent in 1964 to 8.2 per cent in 1983, compared with a decline from 72.1 per cent to 62.7 per cent for the nine OECD members...

OECD & US Trade in manufactures with the NICs (\$ billion)



Peruvian police detain alleged Abu Nidal committee member

By Barbara Durr in Lima
PERUVIAN police at the weekend said they were holding a man believed to be a central committee member of Abu Nidal, a breakaway faction of the Palestinian Liberation Organisation...

been responsible for more than 25 attacks around the world since 1976. These include the hijacking of an Egypt Air jet in 1985 in which 59 people were killed when the plane was stormed by Egyptian commandos in Malta...

The report deals principally with four Asian NICs (Hong Kong, Korea, Taiwan and Singapore) and two Latin American (Mexico and Brazil), with the emphasis on Korea and Taiwan. A new analysis by the Paris-based Organisation for Economic Co-operation and Development concludes that both the NICs and the industrialised states need substantial economic adjustment...

'EC unready for threat to car output'

By Kevin Done, Motor Industry Correspondent

THE European Community lacks a common external trade policy to deal with future threats to EC car production from Japan, South Korea, and the US or for the related issue of setting local content requirements for EC-based assembly plants.

European Community, but will probably be replaced by a cap on Japanese sales in the EC. DRI claims, however, that many EC industries are concerned that the removal of the very obstacles that have made them uncompetitive, before they have had time to restructure, will make them even less capable of competing with non-EC manufacturers.

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OVERSEAS NEWS

Afghan rebel leader criticises attacks

By Christina Lamb in Peshawar

THE leader of one of the seven Afghan resistance parties has strongly criticised attacks on departing Soviet troops.

Prof Rahbani, leader of the fundamentalist Jamiat Islami party has appealed to guerrilla forces to let the Soviets go peacefully if they do not first bomb villages. He believes that if the Mujahideen rebels continue to fire on departing troops the Soviets might delay withdrawal.

There has been a sharp increase in the number of rockets fired into the capital by the guerrillas. British nationals have been advised to leave because of what the Foreign Office describe as a deteriorating security situation.

PLO man rearrested

Israeli security services yesterday arrested Mr Faisal Husseini, a champion of the Palestine Liberation Organisation in East Jerusalem, writes Eric Silver in Jerusalem. Mr Husseini, who was released in June after nine months in prison without trial, was placed under administrative detention for six more months.

Police said he had resumed his "subversive, hostile activities" immediately after his release.

Tunis pluralism call

President Zine El Abidine Ben Ali called for political pluralism when he addressed the first Congress of the ruling Rassemblement Constitutionnel Democratic party to take place since the enforced retirement of Tunisia's first head of state, Mr Habib Bourguiba, writes Francis Gillies.

"Pluralism is no longer a mere possibility; it has become a necessity," the country's ruler stressed.

Twelve die in SA

Police shot and killed a black man in a township and three men were killed in fighting between rival gangs, taking to 12 the weekend toll in racial and political violence in South Africa, Reuter reports from Johannesburg.

In Johannesburg, police identified a woman killed in a bomb explosion on Saturday as 21-year-old Mary-Ann Setrans from nearby Boksburg.

HK man to stay on

Mr Piers Jacobs, Hong Kong Financial Secretary, said he would stay on despite mounting rumours that he would be replaced, the government-owned Radio Television Hong Kong (RTHK) reported, Reuter reports from Hong Kong.

Speculation that he would resign emerged after the October stock crash as he was criticised for permitting a four-day suspension of the Hong Kong stock exchange.

Laos seeks funds

Laos has enacted a new law to attract foreign investment, hoping the move will bring technology to help develop its poor economy, the national Lao news agency KPL said, Reuter reports from Bangkok.

KPL said the Lao Peoples Supreme Assembly recently passed a 32-article law to protect foreign investment from government nationalisation.

Experts tackle the riddle of the Sphinx

Tony Walker reports on efforts to halt the decay of an ancient monument

WHEN a 250 kg chunk of limestone fell earlier this year from the Sphinx, carved from a rock 50m years old, the dull and sickening thud reverberated throughout the archaeological world, budding experts rushing to the mystical monument's side and ending the career of Egypt's top antiquities official.

Now, after several months of study, a panel of local and international scholars has decided on emergency measures to save the fractured Sphinx whose inscrutable presence has dominated the approaches to the great Pyramid of Giza for almost 5,000 years.

After being taken for granted for most of its life, the curious 240-foot long creature with the god-like face of a Pharaoh and the body of a lion is being pampered in the hope that disturbing signs of mortality can be reversed. For the Sphinx is in danger of crumbling away, a victim of climatic change, noise pollution and

encroaching settlement.

Dr Zahi Hawass, Egypt's chief archaeologist at the Pyramids, said urgent studies were under way to decide on the best means of repairing and preserving the Sphinx.

The great architects and builders of the pharaonic era never dreamed that the desert wilderness they chose for the Sphinx and the Pyramids would be invaded by millions of tourists in buses belching diesel fumes.

Chimney restoration efforts and the lack of a systematic approach to reconstruction have also taken their toll. "You have to do it in a scientific way," he said, "otherwise the work can be destructive."

Use of cement between 1961 and 1967 corroded the soft limestone body of the Sphinx, leaving it pock-marked and weakened. Scientists were looking at the possibility of covering the Sphinx's torso with a limestone case which would preserve the structure without harming it.

Dr Omar el Irimy, a scientist

on the panel called in to minister to the Sphinx, said one of the mysteries of the ancient monument was why those responsible for its construction chose an inferior limestone from which to fashion its awesome visage and body.

Dr Irimy said a much superior limestone, used to build the Pyramids, was available from nearby quarries in the Mokattam hills overlooking what is now Cairo.

The Egyptian chemist, who is perhaps his country's most knowledgeable figure on the effects of climatic change and environmental pollution on ancient monuments, said the spitting of a 250 kg chunk of rock from the Sphinx was the most serious injury the creature had suffered thus far, apart from the loss of its nose.

There are no clues as to how the 4,600-year-old Sphinx came to be defaced. One theory, which tends to be discounted by archaeologists, is that Napoleon's legions used it for target practice in the early nineteenth century.

Some geologists believe the Sphinx's greatest enemy is an increase in humidity caused by the construction of the Aswan High Dam in upper Egypt. Another serious threat is a rise in the water table.

Pollutants from human settlement in the area - as the city of Cairo has gradually spread out to envelop the ancient monuments - have also found their way into the underground water and been absorbed into the Sphinx's body, corroding it from the inside.

Dr Hawass said his committee would adopt a two-pronged approach to the frightening prospect of a disintegrating Sphinx. One was to study the humidity level in the area and in the body of the Sphinx itself, and at the same time seek to suppress the water table.

The other task was to reduce the noise level in the area by restricting traffic. "We have a major plan to change the Giza plateau (on which the Sphinx and Pyramids are located) from a (human) zoo to an open

museum for the first time," Dr Hawass declared.

This means that hawkers and camel drivers would be kept away from the Sphinx and the base of the Pyramids. Visitors would be taken to special car parks near the plateau and ferried to the historic monuments.

Experts are also worried about the effects of mass tourism on the Great Pyramid of Cheops. They believe people should be banned from entering the monument because their presence contributes to increasing humidity levels inside.

"These monuments were built for certain functions in an isolated area. Now we are changing these functions," said Dr el Irimy. "If we keep changing the environment we'll have more troubles and some of the problems will be extremely difficult to solve."

Dr Hawass said measures to save the Sphinx should be sufficient, "but if we stop for any reason in our preservation efforts, it will be in danger."



Body building: A worker carves a stone slab for the restoration

Brazil clinches deal with Paris Club

By George Graham in Paris

BRAZIL took another step towards the completion of its heavy debt-rescheduling programme at the weekend by reaching agreement with the Paris Club, representing government creditors, on the repayment of \$5bn of official debts.

The agreement, reached in the early hours of Saturday morning, will postpone Brazilian interest and principal payments falling due over the next 20 months and spread them out over 10 years.

After the approval last Tuesday by the International Monetary Fund in Washington of Brazil's economic programme, the Paris Club agreement opens the way to final agreement on the rescheduling of \$62bn of commercial loans, coupled with a request for \$5.2bn of new money, which is now being negotiated with a committee of banks chaired by Citicorp of the US.

Mr Sergio Amaral, secretary for international affairs at the Brazilian Finance Ministry and head of his country's delegation at the Paris talks with government creditors, said the agreement was the best Brazil

had obtained at the Paris Club, and provided "a breath of fresh air to allow Brazil to put its economic adjustment programme into effect".

Payments of principal falling due between January 1987 and August 1988 are to be rescheduled over 10 years, with a five-year grace period starting in August 1988. Payments of both interest and principal from then until March 1990 will also be rescheduled over 10 years, but with a grace period only until April 1, 1990.

Mr Amaral said Brazil would "not pay a penny of interest or principal until March 31, 1990" on the loans covered by the agreement - a total of \$4.92bn.

The agreement is also expected to reopen Brazil's access to official export credit cover, which makes up a large part of the debts included in the Paris Club negotiations. The US Export-Import Bank, the UK's Export Credits Guarantee Department and France's Coface had all indicated that they expected to renew their cover for Brazil once the Paris Club rescheduling was approved.

Shultz tour to put pressure on Sandinistas



Shultz: Latin America visit

By Tim Coone in Managua

THE US Secretary of State, Mr George Shultz, is to begin a 10-day tour of Latin America today with the apparent aim of sounding out support for renewed pressure upon the Sandinista Government in Nicaragua.

Mr Shultz starts his tour in Guatemala, where he is to meet foreign ministers of the Central American countries which signed the Esquipulas II peace plan a year ago, with the exception of Nicaragua, which has not been invited.

The recent crackdown by the Nicaraguan Government on its internal opposition, and US proposals to renew military aid

to the Nicaraguan Contras based in Honduras, are expected to be central themes of the Guatemala meeting.

Differences between the ministers make it uncertain whether a joint statement will result from the meeting, however, as the Guatemalan Government has made it clear that it will not join any move aimed at further isolating Nicaragua.

Costa Rica is also firmly opposed to the removal of military aid to the Nicaraguan rebels.

Mr Shultz's task is to rally support for a last-ditch offensive against the Sandinistas before the Reagan administration

Chinese reverse prices promise

IN SPITE OF official promises of no more price rises this year, Chinese consumers are braced for a new round of increases in the cost of basic commodities, as China faces its worst inflation since 1949, writes Peter Ellingsen in Peking.

According to the People's Daily, 10 household items will go up because of production shortages. Food prices are predicted to rise later this year after a decision in April to lift price controls on staples such as sugar, meat and vegetables.

Both moves directly contradict a government undertaking last week promising no more price rises this year.

Burma detains reporter and leading dissident

BURMA'S most prominent dissident, retired Brigadier Aung Gyi, several of his associates, and Sein Win, a reporter for The Associated Press news agency have been detained in Rangoon, diplomats said at the weekend, Reuter reports from Hong Kong.

The diplomat in Rangoon said he believed 11 or more of Aung Gyi's associates had been detained.

A former colleague of Burmese leader U Ne Win, who stepped down last Monday, Brig Aung Gyi this year emerged as the leadership's most prominent critic.

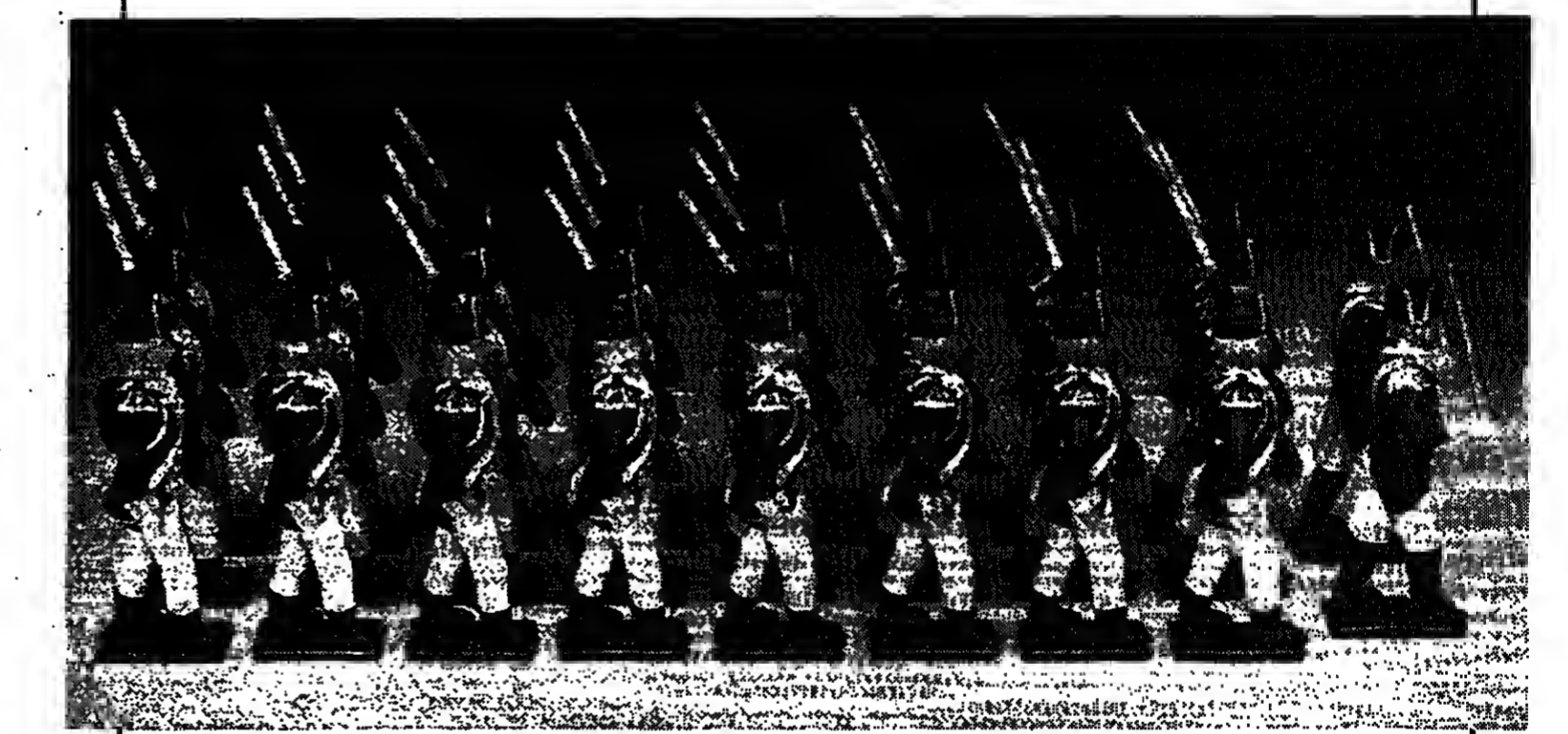
Open letters from him warning of "imminent catastrophe" unless reforms were introduced were circulated earlier this year during discontent

over falling living standards that led to clashes between police and protesters.

The detentions occurred four days after the election of hardliner Sein Lwin to the supreme post of socialist party leader and head of state.

Brig Aung Gyi, 70, helped U Ne Win seize power in 1962 but was purged a year later. He was condemned by delegates at a recent emergency congress of the ruling Burma Socialist Programme Party.

The reporter, Sein Win, 66, was jailed for his journalism in the last years of the democratically-elected government of U Nu, and in the first year under the rule of Ne Win. In 1963 he was awarded the Golden Pen of Freedom by the International Federation of Journalists.



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Jordan and Egypt in trade agreement

By Tony Walker in Amman

JORDAN and Egypt have agreed on a \$250m trade deal for 1988 after a visit to Amman by an Egyptian delegation led by Dr Afef Sidki, the Prime Minister.

Barter will account for about half the goods to be traded under the agreement, which was negotiated over two days of talks.

Jordan would supply mostly cement in exchange for Egyptian aluminium, rice, cotton

and textiles. Barter trade is expected to amount to some \$110m in 1988. World prices will be used to calculate the value of items exchanged.

The trade agreement also provides for the establishment of trade centres in Cairo and Amman to help promote commercial exchanges.

Jordan and Egypt have in the past several years sought to forge closer trade links. This followed Jordan's

resumption, in 1984, of relations suspended in 1979 after Egypt signed a peace treaty with Israel.

Petra, Jordan's news agency, said the two countries aimed to increase two-way trade to \$350m in 1988. Trade is now running at about \$100m.

The Egyptian and Jordanian delegations also reviewed joint ventures in tourism, fishing and canning, and livestock production.

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A 1968 Volvo 121.

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Poll shows lower confidence in economic trends

By Peter Riddell, Political Editor

THE BRITISH public has become gloomier about the economic outlook in the last couple of months, after the recent series of interest rate increases. According to a Mori survey in yesterday's Sunday Times newspaper, some 33 per cent of those questioned think the state of the economy will become worse over the next year, while 28 per cent believe it will improve.

Overseas construction orders rise

By Andrew Taylor

THE VALUE of overseas contracts won by British construction companies rose by 40 per cent last year to reach their highest level since 1984/85, according to the Department of Trade and Industry.

Table with 5 columns: Region, 1987, 1986, 1985, 1984. Rows include European Community, Rest of Europe, Middle East Asia, etc.

share of worldwide construction orders, while that of the developing nations has fallen. The Middle East last year accounted for just over 5 per cent of all overseas construction orders won by British-owned companies.

Littlewoods enters bidding for Girobank

By Ian Hamilton Fazy, Northern Correspondent

THE LITTLEWOODS Organisation, the largest private company in Britain, has made a bid for Girobank, the Post Office retail banking subsidiary which the Government put up for sale in June.

The company is best known for its retail clothing stores, mail order catalogue business and football pools, but it is expanding fast in financial services through its Credit and Data Marketing Services subsidiary, which produces charge cards for retailers outside the Littlewoods group.

The Post Office will recommend to the Government which bidder should get the bank. One of the conditions of the sale is that its close relationship with the Post Office is maintained.

happier if Girobank's owner was a public company. But Littlewoods is understood to feel that going public would be too high a price to pay if that were a condition of the purchase.

Preparing to cash in on the latest royal birth

Maggie Urry looks at the commercial side of the Duchess of York's confinement

THE Staffordshire potters are waiting for the word. Cow & Gate, the baby food makers, are ready for the rush. But 800 Woolworth store managers have had their instructions cancelled.

In the past Cow & Gate have given away baby food to mark royal births. This time, it was the Duchess's love of flying which prompted the move: an estimated 300 bemused babies will have the privilege of watching a crown, a plane, a palace, a cow and a gate dangling above their cots.

Coloroll sold 20,000 mugs for the birth of each of the Princess of Wales's two boys. Sales depend greatly on the popularity of the parents. Although this baby will be only fifth in line to the throne, and so inherently less interesting to the populace, Mr Martin thinks

will push Baby York even further down the queue. The rush of royal babies is matched by the steady rise in the UK birth rate since 1982. Indeed, so many babies are due at around the same time as the Duchess's that Woolworth has decided to drop its planned promotion.

The idea had been for each of Woolworth's 800 store managers to find a local baby of the same sex, born the same day as the royal baby, and present the mother with a layette, comprising a complete baby kit, in front of the local press.

pleased, as managers exercised a Solomon-like judgment in picking the best candidate, persuaded Woolworth not to try. The Duchess of York will still receive a Woolworth layette, retail price £25.53. One wonders if she will personally use the enclosed nappy sacks - "they're what you put disposable nappies in afterwards," explains Woolworth.

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UK NEWS

Life office prospectuses proposed

By Barry Riley

EACH LIFE assurance office should prepare a prospectus or marketing information brochure, according to Camifa, the Campaign for Independent Financial Advice...

costs would be far in excess of any benefit to consumers. Camifa repeats its earlier warnings about the impact of disclosure of commissions by independent financial advisers...

According to Mr Glover, the suggestion of a prospectus is put forward as "a starting-point for a constructive debate".

It is understood that the SIB will put forward its own views in about three months' time. Camifa urges that no final decisions should be taken until there has been time for full discussion of the implications of the ending of the Lantro commission agreement.

Foundries fight plans to end levy for research

By Richard Tomkins, Midlands Correspondent

BRITAIN'S iron foundry industry is resisting government proposals to scrap the compulsory levy which is imposed on nearly all iron foundries to fund research into castings technology.

The proposals have not yet been made public but have been discussed privately between Department of Trade and Industry officials and members of the foundries industry.

The Government regards the charge as anomalous because it is the only statutory research levy still imposed on any British industry and the only one collected by the DTI.

Littlewoods seeks a bank for its business catalogue

Barry Riley on the latest Girobank permutations

THE NEWS that the Littlewoods Organisation is a bidder for Girobank underlines the changing nature of the financial services industry.



Desmond Pither: Restored Littlewoods fortunes

Several other retailing groups also have important financial operations and there are, for instance, rumours that Marks and Spencer, which already has a banking licence to support its credit card business, plans an expansion into other financial products.

In 1986 Littlewoods spun off its Credit and Data Marketing Services operation, previously part of the mail order division, as a separate subsidiary.

The Board of the Post Office will meet on September 16 to draw up a shortlist of four or five possible buyers and will make a final decision in November.

A price of up to £300m has been unofficially estimated but some of the more extravagant hopes will have to be reduced after last month's publication of disappointing results for Girobank.

doing no more than seeking commercially valuable information about Girobank.

The Board of the Post Office will meet on September 16 to draw up a shortlist of four or five possible buyers and will make a final decision in November.

At a price of up to £300m has been unofficially estimated but some of the more extravagant hopes will have to be reduced after last month's publication of disappointing results for Girobank.

However, there is likely to be a more positive attitude to offers from Scottish banks which want to expand in the English market and from smaller banks, such as the Co-op Bank, which may want

to improve their competitive position. Bids from foreign banks will also be sympathetically considered.

An offer from a retail group such as Littlewoods would certainly carry the promise of broadening the degree of competition in the financial services industry, although the Bank of England would need to be satisfied that the privately-owned Littlewoods had the financial strength to develop Girobank and stand behind it in all conceivable circumstances.

Littlewoods has spent the past few years pulling itself out of a bad patch. In 1980 pre-tax profits slumped from £41.7m to £11.5m and in 1982, at the age of 86, the founder, Sir John Moores, made way for non-family professional management, although he remains president. Since then, Mr John Clement, chairman, and Mr Desmond Pither, chief executive, have restored the group's fortunes. Pre-tax profits reached £80.2m in 1987.

Mr Pither has placed considerable emphasis at Littlewoods on the development of new technology in the retailing business. The catalogue mail order side is changing rapidly, largely because of the impact of new communications technology.

To a considerable extent, such technology is also relevant to the development of a retail financial services business. Girobank, in particular, has set out to become what it describes as a "telephone-and-mail" bank, rather than to build a network of traditional dedicated bank branches.

Certainly, Littlewoods' offer illustrates that it has regained its self-confidence after a period in which its performance slipped.

Merger sets up regional polytechnic

By David Thomas

A NEW regional polytechnic covering the City of London and East Anglia is being formed by the merger of three colleges, the most dramatic example yet of a wave of amalgamations in higher education.

The colleges to merge are the City of London Polytechnic, in Moorgate, the Essex Institute of Higher Education, in Chelmsford, and the Cambridgeshire College of Arts and Technology, in Cambridge.

The new polytechnic, which has yet to be named, will have about 800 academic staff and cater for more than 30,000 students a year, many part-time, equivalent to more than 10,000 full-time students.

The polytechnic will seek about £50m in government and private funds to build extra facilities in Chelmsford and Cambridge.

Boost for school-leaver scheme

By David Thomas, Education Correspondent

THE GOVERNMENT is likely to expand its funding for a new type of partnership between business and schools, which guarantees jobs to school-leavers in deprived inner-city areas.

The Department of Employment is considering how to expand the programme, known as "compacts", because of the high level of interest which has been shown in almost all UK regions.

Interest in the scheme is all the more surprising because the first UK compact, modelled on an idea pioneered in the US, was launched in the East End of London only last year.

emerged that the East London compact has helped to cut truancy, encourage children to prolong their education, and deepen school-industry understanding through work experience programmes.

In March, Mr Norman Fowler, Employment Secretary, announced a new round of compacts to start in 1989. The intention was to give prospective compacts with good potential £50,000 in development money, and then to settle on 15 new compacts, which would get up to £100,000 a year for four years.

More than 40 applications were received from urban areas throughout the country for these funds. The applications were submitted jointly by education authorities and local employers, usually through umbrella organisations, such as chambers of commerce.

The response was particularly interesting because it included large numbers of Conservative-controlled and Labour-controlled areas. This implies that the political resistance which has clouded other government school-industry initiatives in the inner cities, such as City Technology Colleges, does not apply to compacts.

An advisory committee which met recently to sift the applications concluded there were considerably more than 15 applications of good quality. Mr Fowler has since been considering how an expanded compact programme could be fitted into the existing budget. One possibility, for instance, is for him to use some of the money earmarked for marketing the idea to fund a larger programme.

Universities increase research earnings

BRITISH universities earned £630m from research contracts and other services in 1986-87 - an increase of almost £100m on the previous year, according to figures published today by the University Grants Committee.

"Universities' operating income - excluding cash for equipment and furniture - rose by £190m to nearly £2.5bn.

Grant income from the Exchequer increased by £55m. The proportion of universities' income received in this form was 53 per cent - £1.57bn - representing a fall for the fourth year running.

Income from fees rose by 9 per cent to £330m with almost two-thirds of the cash coming from overseas students.

There was a 9 per cent rise in the number of full-time academic staff paid wholly from government outside university general funds.

Income from non-governmental bodies - such as those in industry, charity and commerce - grew by 65m, while that from research councils rose by £22m.

PM seeks to reassure non-EC nations

By Peter Riddell, Political Editor

MRS Margaret Thatcher yesterday sought to put reassurance about the implications of the creation of the single European market, in 1992, for countries outside the community.

In an interview she said: "The whole point of the EC is not to put up boundaries between the community and the outside world, just because we are freeing them up within does not mean we are putting up boundaries round the outside."

Mrs Thatcher did not believe countries outside the community need fear 1992. "On the contrary it gives us a chance to sell to a big market and it also

MRS THATCHER held talks yesterday with Mr Lee Kuan Yew, the Singapore Prime Minister, on the third stop of her trip to the Middle East, south-east Asia and Australia, reports Roger Matthews from Singapore. The leaders were

expected to discuss the Kampuchean problem. On Saturday in Oman, Mrs Thatcher discussed with Sultan Qaboos the prospects for a ceasefire in the Gulf War between Iran and Iraq.

had more to spend and industrialists had greater confidence to invest more in manufacturing and service industries. She added that Britain's current account deficit was a problem created by the country's fast growth and the "unusually high" investment in industry this year. The deficit "is in no way due to our handling of the public sector because we still in fact have a surplus in the public sector. That is to say we are redeeming debt and not incurring it."

gives exporting nations outside - Australia, the US - the chance to sell to a single market, so your chances are also increased."

Mrs Thatcher made her remarks during a wide-ranging interview recorded last Friday

before her departure for her Middle East and Far East tour. This included her personal support for women priests.

Discussing the outlook for the British economy, Mrs Thatcher said Britain's faster growth had meant that people

Owen calls for 'less selfish' attitude to EC

By Our Political Editor

BRITAIN needs to become "more wholehearted and less selfish" about its membership of the European Community, Dr David Owen, the leader of the continuing Social Democratic Party, urged yesterday.

His statement of unequivocal support for closer European union was part of the launch of an SDP White Paper on Europe to be discussed at its conference in mid-September.

He accused Mrs Margaret Thatcher and Mr Neil Kinnock of having started "a depressing competition as to who could portray themselves and their parties as the least enthusiastic, least committed, most antagonistic and semi-detached in their attitude to the European Community."

Dr Owen argued that this attitude was out of tune with the thinking of a younger generation and a growing number of realists who wanted Britain to play its European hand with skill and finesse.

Welcoming the natural death of Euro-fanaticism over the last few years, Dr Owen said it was unfortunate that the evolving pattern of practical European unity, compromise and political pragmatism, had been "so overlaid with the rhetoric of a phoney nationalism that at times our membership looks fractious, self-centred, and chauvinistic."

Kinnock's rating 'lowest since election'

By Peter Riddell

MR NEIL KINNOCK'S personal rating as Labour leader has deteriorated sharply during the summer, according to a survey. A Mori survey in yesterday's Sunday Times shows that 57 per cent of those questioned were dissatisfied with Mr Kinnock's performance, his worst rating since before the last

general election. Among Labour supporters, 41 per cent were dissatisfied. This underlines Mr Kinnock's task this autumn in asserting his credibility as an alternative prime minister.

Mr Kinnock drew comfort from a survey of party members in Merseyside which

backed his policy review. It showed that 70 per cent wanted a shift from unilateralism to a form of multilateral abolition of nuclear weapons. On whether a Labour government should scrap nuclear weapons only if other countries did so, 68 per cent said yes, 28 per cent said no.

AMERICA'S QUALITY CRISIS. LESSONS OF THE BOEING-JAL AIRAFFAIR. U.S. WORKERS ANGER AMERICA'S BIGGEST SINGLE CUSTOMER. Since the crash of a Japanese jumbo jet three years ago, Japan Air Lines is worried about Boeing's ability to control the quality of its planes.

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Table with columns for Certificate Number, Amount Called, and Amount Paid. Lists serial numbers of debentures to be redeemed.

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UK NEWS

Austin Rover sells fuel systems arm for £3.5m

By Richard Tomkins, Midlands Correspondent
AUSTIN ROVER, the car-making subsidiary of the Rover Group, has sold its fuel systems division to the privately-owned Hobourn Group of Rochester, Kent, for \$3.5m in cash.
The division employs 350 people in the Birmingham suburb of Erdington. It is still widely known by its previous name of SU Carburetors under which it manufactured one of the most famous carburetors in the world.

Motor trade expects record August sales

By Kevin Done, Motor Industry Correspondent
THE UK motor industry is braced for new car sales of up to 450,000 units during August, a record for a single month, as demand peaks with today's change of the registration prefix letter.

Dobson Park to cut jobs

By Clay Harris
DOBSON PARK Industries, the diversified engineering group, is to reorganise its UK mining equipment operations with the loss of 190 jobs, mostly in the Yorkshire region.

Sales of British cars to Japan 'will treble'

By Ian Rodger in Tokyo
AUSTIN ROVER Japan (ARJ), the sales subsidiary to Japan of Austin Rover of the UK, is forecasting that its car sales to Japan could reach 30,000 units in the early 1990s, more than treble the current level.

Protected lock industry forced to change

Richard Tomkins reports on a traditional craft facing growing foreign competition
THE LITTLE Black Country town of Willenhall, West Midlands, is a remarkable place. A relic of another age, it is a rare surviving example of a community still dominated by a single craft: in this case, locksmithing.

Coastal oil spillages rise by 15%

By Kevin Brown, Transport Correspondent
THE NUMBER of oil spillages around the UK coast rose by 15 per cent last year to 500, according to an independent report published today.

Inner cities 'need more aid from business'

By Hazel Duffy
BUSINESS is not yet making much impact on the problem of the inner cities, according to the Confederation of British Industry's task force on urban regeneration in a report due to be published in September.

Footwear imports down as slow recovery starts

By Alice Rawthorn
THE BELLAGUERED footwear industry may be emerging from months of recession. The levels of output and orders are recovering slowly and the industry has finally succeeded in stemming the influx of imports.

Mercury cuts its costs on international calls

By Hugo Dixon
MERCURY Communications stands to make millions of pounds in extra profits this year after a change in the prices it has to pay British Telecom on international calls.

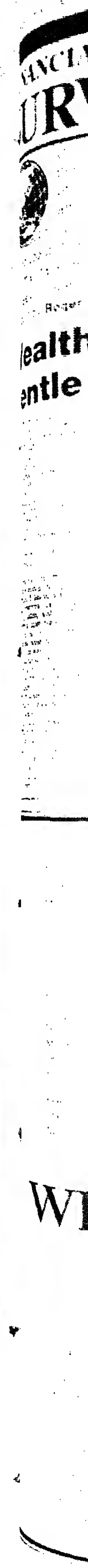
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Friendly HOTELS PLC advertisement with financial data table and promotional text: 'Substantial further progress can be expected in 1988'

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FINANCIAL TIMES SURVEY



Oil revenues support the healthy economy of this small and affluent Muslim country on the

Borneo coast. The Sultan, the 29th ruler, maintains his absolute power and sees no need yet for elections.

A report by Roger Matthews

Wealth and gentle pace

STUDENTS OF political and economic geography will immediately spot the apparent aberration suffered by the Great Geographer in siting Brunei Darussalam on the northern coast of Borneo. The clues are there in abundance. Brunei is small country both physically and in terms of population: less than 6,000 square kilometres and about 230,000 people.

It is ruled by a near absolute monarch. Its economy is heavily dependent on a single natural resource: hydrocarbons.

Its Gross National Product per capita is among the highest in the world. It has substantial financial reserves. Its official religion is Islam, and, if the world were a flatter place, Brunei should, of course, have been located some thousands of miles to the west.

There, alongside the United Arab Emirates, Kuwait and Qatar, it would have been a natural member of the Gulf Co-operation Council instead of being a rather less suited member of the Association of South East Asian Nations (Asean).

But Brunei has been blessed. Instead of being 75 per cent sand, its territory is 75 per cent forest. It can grow at least some of its own food.

Instead of sitting uneasily on the doorstep of one of the

world's most turbulent regions involving the worst of both religious and political extremism, it shares the island of Borneo with Indonesia and Malaysia, two generally tolerant and unthreatening neighbours.

Brunei is unlikely ever to be the focus of superpower rivalry, nor is it subject to much in the way of external pressures. Instead, it is relatively free to enjoy its wealth.

The gentle pace of Bandar Seri Begawan, one of the world's least readily-remembered capital cities, is rarely ruffled by the strains of motor cycle outriders proclaiming the progress of members of the royal family. Some civil servants - more than 45 per cent of the working population is employed by the Government - have recently been encouraged by their employer to take up golf.

The private sector has needed no such bidding. A future entry by Brunei in the Guinness Book of Records (there are two already, both relating to affluence) could well come under the heading "Chamber of Commerce with the Largest Proportion of Regular Golfers."

There is just one status in Bandar Seri Begawan, that of Sir Winston Churchill who stands pugonically outside the only museum in the world



Brunei Darussalam

dedicated solely to his achievements; and reminds those with very short memories that Brunei became fully independent from Britain only in 1984.

Sir Winston's presence was not a British initiative and the enthusiasm for things Anglo-Saxon has not greatly diminished in the past four and a half years.

Rolls-Royces and Range Rovers, teachers and seconded military officers, light tanks and missile defence systems, television programmes and educational videos - wherever Britain has an internationally competitive product it enjoys an almost automatic advantage.

The maintenance of the colonial link for a decade and a half after some of its neighbours won independence appears to have served Britain and Brunei well. By 1985 the communist threat to South East Asia which caused such severe birth pangs for Malaysia and Singapore had been virtually eliminated.

The successive oil price rises

of the 1970s provided the country with a substantial financial cushion. Asean was already a proven grouping and, while scarcely dynamic, had created a sense of regional identity.

The 158th member of the United Nations thus enjoyed a fairly painless birth and if problems were to be encountered they would be those familiar to nations or individuals which have inherited wealth or had it thrust upon them. For these fortunate few the requirement to create new assets is less important than the prudent administration of that which is already gained.

The few occasions since independence that Brunei has appeared in international headlines have almost all related to the expenditure of large sums of money, whether in a personal or national capacity. In Brunei it is not always easy to distinguish the separate functions.

His Majesty Sultan Haji Hassanal Bolkiah appears in the Guinness Book of Records as the world's richest man with

an estimated fortune of US\$25m, an entry which has angered the Brunei authorities. They say this figure might be valid only if it included the nation's entire reserves.

However, his majesty is also Prime Minister and Minister of Defence. Reporting directly to the Prime Minister's office are the police, the civil service commission, audit, councils, administration, establishment, detention centre, the anti-corruption bureau, petroleum unit, plus broadcasting and information.

Two of the Sultan's brothers, Prince Mada Haji Mohamed Bolkiah and Prince Mada Haji Jefri Bolkiah are the ministers of Foreign Affairs and Finance respectively.

Such a considerable concentration of portfolios in the hands of one family has led some internationally-experienced bankers to conclude that the clarity of the line between private and public purse in Brunei is perhaps more blurred than in any other country which comes readily to mind.

The free-spending style of the 42-year-old Sultan and his penchant for acquiring hotels, aircraft, yachts and customised cars and, more recently, works of art, have tended to reinforce this impression, at least in the public mind. And it has attracted to the Sultan and to Brunei the predictable quota of international bounty hunters eager to exploit any naivety or inexperience.

This perhaps goes some way to explaining Brunei's role in providing funds for the Contra rebels in Nicaragua; the fraudulent activities which led to the closure of the National Bank of Brunei; and the unsubstantiated allegations that funds from the Sultan played a role in the takeover battle for control of House of Fraser, the British company whose Harrods department store.

The Sultan has said he was misled over the contra payment and the \$10m has since been repaid. He has denied any involvement in the House of Fraser takeover. Some of those

CONTENTS	
Politics	Investment
Foreign policy	Oil production
Economy	Profile: Royal Brunei Airlines 4
A modern monarchy	Picture: The Sultan returns from the Haj

KEY FACTS	
Population: 226,300	
Land area: 5,765 sq kms	
Estimated 1986 (Brunei \$m):	
Imports: 1,450.4	
Exports: 3,990.1	
Total: 5,440.5	
Balance: 2,539.7	
Government revenue and expenditure - 1986 (Brunei \$m):	
Total revenue: 3,331.5	
Total expenditure: 2,720.4	
Surplus: 611.1	
Oil production (current):	
150,000 b/d	
LNG: 5.1m tonnes a year	
Exchange rate: US\$1 = Brunei \$2.02	

responsible for the National Bank of Brunei collapse have been tried and jailed.

However, the publicity and rumours have obviously upset the Sultan, as has the volley of sniping which accompanied the construction of a gold-domed 1,700-room palace which serves as both his main residence and administrative headquarters.

"The people of Brunei expect him to live in such style," say his defenders. The expectation seems of fairly recent origin though since his father, known popularly as "The father of modern Brunei" who died in 1986, favoured a more modest lifestyle.

The Sultan's lifestyle may also have served to foster the understandable acceptance among a growing proportion of the population, which is about 70 per cent Malay, that the provision of affluence is a function of the state. Like some of the Gulf states, Brunei citizens enjoy cradle-to-grave welfare services and a virtually tax-free environment.

Generous housing and car loans allow quite young people in government service to build substantial homes and drive luxury cars. A student studying medicine abroad might expect to return home to a payment of about \$170,000 in accrued service, having already received a totally free education.

While such a financial stimulus is considered necessary to persuade young people to attempt the more demanding professions, it nonetheless contributes to the national perception of the state as the provider, a function reinforced by the Sultan and to Brunei the predictable quota of international bounty hunters eager to exploit any naivety or inexperience.

In common with the smaller Gulf states, Ministers in Brunei talk optimistically of a more diversified economy in readiness for the day when its oil reserves are exhausted. They wish to see a stronger private sector, some manufacturing, the development of service industries, and a greater flow of qualified citizens into the professions.

In short they want Brunei to be like other countries with a range of economic activities and local skills.

But with a workforce currently totalling only a little over 80,000, the limitations are obvious. The country has the financial resources to purchase the physical infrastructure of a

modern state including armed forces, a diplomatic service and a national airline. But it will be forever struggling to find local people to staff them adequately.

There is a large expatriate workforce, especially in the construction industry, but it does raise the sensitive issue of what limit should be placed on the numbers of foreign workers in Brunei.

Equally sensitive is the attitude of the Government to the Chinese population, who number up to 60,000. An estimated 20,000 of them - many of whom have lived in Brunei for 20 years or more and consider the country their home - are effectively stateless.

To be granted citizenship they have to pass a stiff examination based on the customs, practices and language of the majority Malay population. There is no syllabus and no formal method of instruction.

It is not surprising that many Chinese, and indeed Malays, see it as a device for limiting the scope for the Chinese in Brunei, despite the urgent need for their skills.

Brunei Shell, the jointly-owned company responsible for exploiting the country's oil reserves and the country's second-largest employer, has expressed concern at the rate at which qualified Chinese are leaving because of their failure to be granted citizenship.

How precisely attuned the Sultan is to such concerns is questionable, although in such a small, closely-knit society secrets are not easily hidden.

The quality of the advice and who tenders it are obviously

Continued on page 4

THE COUNTRY

Brunei Darussalam is in North West Borneo and borders onto Sarawak. It has a population of around 226,500. Malays make up around 155,500, the Chinese 41,500 and indigenous peoples some 11,500. There is a large foreign community working in Brunei, which is drawn from all over the world.

The Sultanate of Brunei Darussalam is a Malay Muslim monarchy which rose to prominence during the 14th to the 16th Centuries. Brunei Darussalam is guided today by the same dynasty - one of the world's oldest ruling families. His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah. The Sultan and Yang Di-Pertuan is the 29th ruler and has been on the throne since 1967.

Today, Brunei has a cabinet style government, made up of eleven ministries headed by His Majesty, The Sultan and Yang Di-Pertuan as Prime Minister.



MANAGING ITS ECONOMY

The Government believes in sound monetary and fiscal policies based on a secure balance of trade and substantial foreign exchange reserves and investments. It has a balanced budget and no national debt.

There is no personal taxation and company taxation is at 30 per cent. Brunei has a double taxation agreement with the United Kingdom. The national currency - the Brunei dollar - is at parity with the Singapore dollar.

The Brunei Investment Agency manages one of the world's largest investment portfolios with holdings in several major economies. The BIA has an office in London and is managed from its headquarters at the Brunei Ministry of Finance.

NATIONAL DEVELOPMENT PLAN

Brunei's national development plan covers the period 1986-1990 and aims to diversify the economy with planned total expenditure of B\$16.2 billion. It

WHAT YOU SHOULD KNOW ABOUT BRUNEI DARUSSALAM

INTERNATIONAL STATUS

Brunei Darussalam resumed its full independence in 1984. Soon afterwards it joined the Association of South East Asian Nations - ASEAN. Brunei is committed to play its part to ensure that ASEAN remains a viable and effective association.

The Sultanate remains a member of the Commonwealth and values highly its links with the United Kingdom and other Commonwealth members.

Today, the Sultanate is a member of the United Nations, The Organisation of Islamic Conference and many other international bodies. In addition, Brunei maintains diplomatic relations with some 42 other states.

ACHIEVEMENTS SINCE INDEPENDENCE

Following resumption of full independence in 1984, Brunei's record of achievements encompasses impressive economic development, sustained social progress and a major effort to diversify the country's economy away from over dependence on oil and gas.

Brunei's economy has one of the highest per capita incomes in the world. The government is determined to ensure that the country enjoys a well balanced development. Civil aviation, communications, housing, education and social welfare are all priority areas in which good progress has been made.

places emphasis on building up industry in non-energy sectors, fostering private enterprise and developing job skills among the local workforce. Brunei's Ministry of Development is able to offer a whole variety of advice and aid packages for schemes that accord with the plan.

For a copy of 'Brunei Darussalam - in Profile', due to be published in October, please complete and post the coupon below to The High Commission of Negara Brunei Darussalam, 49, Cromwell Road, London, SW7 2ED.

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BRUNEI 2

Foreign policy is geared to winning full international status

Rising profile in Asean

COUNTRIES the size of Brunei tend to have limited foreign policy options and by the time it took responsibility for its own external affairs in 1985 the fundamental choices had already been made.

Brunei almost immediately became the sixth member of the association of South East Asian nations, linking it to Malaysia, Indonesia, Thailand, the Philippines and Singapore, an important step towards achieving what a senior official describes as the country's primary aim of winning international acceptance as an independent, sovereign nation.

The task has been made more difficult by the practical staffing problems involved in achieving an international presence.

Before independence Brunei was represented outside Asia only in London, and necessarily had but a small pool of diplomats to staff and upgrade the five embassies it immediately required in the capitals of its Asean colleagues.

The subsequent pace of expansion with a total of 13 foreign missions having been established by the end of last

year, and with more planned, continues to place considerable strain on its Foreign Ministry personnel.

But the main thrust had obviously to be directed at the Asean countries and particularly the political aspect of that relationship. "It is the cornerstone of our foreign policy, historically, this region has not been noted for its stability," says Dato Awang Haji Zakaria, Deputy Minister for Foreign Affairs.

"The prime objective of Brunei is to continue to enjoy its independence and stability. Asean helps to provide that and the other members share our feelings."

As the organisation's newest member, it was considered important to develop contacts at more junior levels through participation in as many as possible of the hundreds of meetings held every year on different aspects of Asean's activities.

The aim has been not just to raise Brunei's profile within Asean, but also to ensure that Bruneians themselves are more conscious of the benefits of membership.

In turn, it is argued, the process will contribute to Asean's wider cohesiveness and thus assist Brunei's ambition to see the organisation substantially increase its level of economic co-operation.

There is also a growing appreciation at senior levels in Brunei of the extent to which the country's financial muscle can be used as an adjunct of foreign policy.

It is a strategy which has been used effectively for several years in the Gulf both by Saudi Arabia and the smaller oil-producing states in attempting to contain or resolve issues of a rather more explosive nature than any that Brunei is likely to encounter.

Given the huge imbalances in population and the level of economic development among the Asean countries, the opportunities for Brunei to cement friendships and simultaneously

assist in the development of countries such as Indonesia could be considerable.

However, apart from individual examples of generosity by the Sultan, there is no evidence yet that Brunei is ready formally to formulate such a policy.

Last year during an official visit to Jakarta, the Sultan allowed it to be known that Brunei was providing up to \$100m in soft loans to help Indonesia's infrastructure projects.

It is probable that more such moves in this direction will be seen over the next few years and Brunei may well prove responsive to approaches from other friendly neighbours.

Brunei's nearest neighbour, Malaysia, is the only country in the region with which Brunei can be considered to have a serious outstanding bilateral grievance, although in typical

Bruneian fashion it is not one which the authorities in Bandar Seri Begawan wish to make too much public fuss about.

Brunei maintains an outstanding claim to the district of Limbang which is part of the Malaysian state of Sarawak and has separated the Tembelong district from the rest of Brunei since the 1960s. Looked at on the map, it appears absurd that a country as small as Brunei should be divided geographically.

There have been fairly regular exchanges between Malaysia and Brunei over the issue at official level without there being much sign of movement.

A flurry of rumours earlier this year suggested that Dr Mahathir Mohamed, Malaysia's Prime Minister, may have been considering the terms of a negotiated settlement. However, once those rumours

reached the printed page they quickly became the subject of legal proceedings and political controversy in Kuala Lumpur.

Foreign Ministry officials in Brunei discount suggestions that Limbang could be purchased from Malaysia, arguing that it would be illogical to purchase that which is already theirs. Instead, confidence is expressed that as Malaysia would like to settle the problem amicably, the way forward will be through negotiations.

Related to this is the offshore 200-mile exclusive economic zone which Malaysia has declared. Brunei is claiming the same area, which could be of interest to oil exploration and mining companies.

On wider international issues, Brunei tends to follow the lead of its Asean partners and appears persuaded that some shift towards greater equilibrium between the US

and the Soviet Union in the region may not be entirely disadvantageous.

There is no automatic assumption that the US bases in the Philippines are vital to Asean, and a parallel willingness to keep an open mind about Soviet intentions in the area of the Philippines was noted in Mr Gorbachev's Vladivostok policy statement in mid-1985.

Officials point to the improvements they detect in the Soviet Union's relations with Indonesia, the Philippines and Thailand as evidence of Moscow's new approach to Asia and the Pacific.

While there is no positive sign of welcome for a higher Soviet profile, the officials say that it would be foolish to ignore it.

Brunei does not have formal diplomatic relations with any of the Soviet bloc countries but, as in the case of China, says it is constantly reviewing its position.

Another important aspect of Brunei's foreign relations is the natural affinity it feels for other Islamic countries, in particular Egypt where it sends students for religious instruction, and other small developing states in the area. It recognises the similarities in the issues it shares with some of these nations and the importance of harnessing Islam as a moderating force.

Both Egypt and Saudi Arabia are seen by Brunei as important countries in this respect, while on Middle East issues it is supportive of the Palestinian cause and careful not to be seen to take sides on the Gulf War.

The best example of where Brunei's interests have been deemed to be different from those of Britain is in the two countries' voting records on Middle East issues at the United Nations. However, that is seen in Brunei as a rare difference of opinion with Britain and one that should be expected.

And it may be another indication of Brunei's growing international development that among future embassies it is planning are both Paris and Bonn. Britain may have to work harder in the future to maintain its special relationship.

WHEN Mr M.S.H. MacArthur arrived in Brunei in 1965 as the first British resident to be appointed under the treaty signed with London earlier that year, he discovered a dismal financial situation. There was just \$227,115.58 in the Treasury.

Of that paltry sum \$200,000 was a loan from the federated states of Malaysia.

The first discovery of oil in 1929 helped to put Brunei's economy on a sounder footing, while the oil price explosions of 1973 and 1979 transformed the country's finances to the extent that for the past four years' investment income has exceeded that produced by the export of hydrocarbons.

This has allowed Brunei to adopt an oil conservation policy, dropping production from a peak of 350,000 barrels a day in 1979 to the present level of about 150,000 b/d. In addition, Brunei exports just over 5m tonnes a year of liquefied natural gas, on a long-term contract with Japan.

Together these two sources of revenue are more than sufficient to cover government expenditure, although the surplus last year may have dipped to as low as \$560m, according to official estimates. However these figures do not include Brunei's investment earnings which may well be in the region of US\$1.5bn-2.5bn, nor apparently would it include the revenues accruing from the

royal family's personal wealth.

In strictly financial terms therefore, Brunei's economy has successfully diversified away from oil as its principal foreign exchange earner. It has also ensured that its oil and gas reserves should be sufficient at the present rates of depletion to last at least another 30 years, assuming some modest new discoveries.

From that comfortable base it was not surprising that the Fifth Development Plan 1986-1990 should lay such heavy emphasis on the diversification of the economy as primarily part of the nation-building process. With the financial basis of the country assured for the foreseeable future, the real task for economic planners is to provide the range of employment and challenges for a population which theoretically could exist on government grants.

Inevitably, the civil service and the oil industry employ the lion's share of the country's estimated 81,000 workforce, about one third of which is comprised of foreign nationals. By 1990, the current five-year plan estimates, the total demand for labour will be just over 100,000, of which nearly 38,000 will be non-resident.

The development constraints inherent with such a small labour force are obvious and are exacerbated by the social attitudes which have become

more marked with the advent of oil wealth.

Officially, Brunei has an industrialisation policy which is geared to the promotion of import substitution and towards export-oriented industries.

The areas which have been identified are agriculture, livestock, forestry and fisheries, manufacturing, and the tertiary industries such as banking and finance, insurance and maintenance services.

The first and second categories offer some modest prospects but are inevitably handicapped by the tiny size of Brunei's domestic market.

The Government sees opportunities to increase rice production to cover up to 30 per cent of local needs, and to achieve self-sufficiency in vegetables, chicken and eggs. Rather greater potential is seen for aquaculture, particularly prawn farming, and forestry.

However, the danger is that with many basic foodstuffs already subsidised - which incidentally creates a lively smuggling industry across the border into Sarawak - the additional incentives required to encourage the development

of these industries will create further price distortions.

The example of Saudi Arabia which has achieved an exportable surplus of wheat, but at about seven times the world price, is one that Brunei's planners could bear in mind.

There is also resistance from some members of the private sector to involving themselves without greater government protection. They argue that new, young industries require protectionist barriers against cheap imports.

There is no sign yet that the Government is heeding such demands, but equally there is little indication that Malay businessmen are rushing to take up the opportunities.

Manufacturing industry faces similar difficulties. Obviously it cannot be labour-intensive, but with technical education still in its infancy, the local labour force is not yet prepared for the very capital-intensive high-technology operations which Singapore has attracted so effectively.

There is a great deal of official pride in the fact that one textile company has successfully entered the women's outer wear market and a joint-

venture agreement has been signed to establish a paint factory, but beyond this the outlook is still hazy.

The Government believes it may be feasible to establish a cement factory and is also looking into chemicals and dyes. There is also real potential in the banking sector, with deposits of high-quality silica sands - used in the glass industry.

Brunei would also like to view itself as a potential financial centre for the region and one of the development plan's objectives is to create a more aggressive finance and banking sector.

In the wake of the National Bank of Brunei collapse it first faces a period of consolidation. The misuse of over US\$600m of bank funds and the subsequent cover-up by bank officials and auditors seriously dented confidence in Brunei's capacity to regulate its own banking affairs.

The International Bank of Brunei, formed in 1980 as the island development bank and now the only bank in the country with a majority local ownership, has little option but to accept the task of demonstrating the soundness of banking practices. It has tightened up its procedures and put personal lending on what it describes as a more scientific basis.

In a small close-knit society, the temptation in the past had been to grant loans based on personal knowledge or family ties. The banks' officers are no longer allowed to maintain their own accounts at the bank and loans to relatives have to be specially approved.

More realistic provisions have been made for bad debts and the bank is putting greater emphasis on improving the skills of its staff.

Getting these fundamentals right will be crucial to Brunei's putative development as a

financial centre. And because of the very limited opportunities in the domestic market, it will eventually have to become far more outward-looking.

The seven foreign banks in Brunei, all of which are licensed deposit takers, readily admit their frustration at the lack of lending opportunities.

One banker says: "We would very happily lend for industrial and other development projects, but at the moment the demand is just not there. We cannot just create industries on our own. As soon as the demand arrives we will be ready and waiting."

Another adds that because the Government takes care of so many of the population's requirements, for example with housing and car loans, there is little demand for traditional banking services. "In Brunei, salaries are essentially 'spending money'," he says.

Most bankers believe that if Brunei is to make any impact internationally it will have to be in some highly-specialist niche, probably investment banking or perhaps there may be scope in insurance. A similar conclusion has been reached by some foreign experts with reference to man-

ufacturing and service industries.

There could, for example, be some scope in tourism aimed at holidaymakers seeking an individually-tailored package, or business travellers who require a couple of relaxing days.

The most difficult challenge for the Government however is likely to be the creation of attractive incentives, especially for the Malay business community and that part of it which is achieving an already high standard of living.

As one Chinese businessman put it: "There is no tradition in Brunei of acquiring wealth through private initiative. For many people their first choice of employment is still the Government. In order for real diversification to be achieved there has first to be a cultural change."

It is a view shared by others. Money will never be a problem for Brunei, so long as it is invested prudently, they say. But what the Government cannot do on its own is create the fulfilling job opportunities that an increasingly well-educated younger generation will demand.

THE ECONOMY

Reduced dependence on oil

POLITICS

Long wait for elections

THE RIGHT of a government to arrest and indefinitely detain citizens without any form of legal process under the terms of an Internal Security Act is one of the least happy legacies left by the British in Malaysia, Singapore and Brunei.

Originally introduced as a weapon against Communist subversion and armed insurrection, it has been used in all three countries during the past year against people with far more modest political ambitions.

Unlike the other two countries, Brunei makes no Western-style democratic pretensions. The Sultan is quite clear on what he believes to be the function of monarchy - it is to provide leadership, and he is unable to foresee when the time might come for the people to participate more actively in government.

Before considering elections he wishes to see "real evidence of an interest in politics by a responsible majority of the people."

How this is to come about is much less clear. Earlier this year there were two political parties in Brunei, the Brunei National Democratic Party and the Brunei National Solidarity Party. They were established at the end of 1985, a move

which caused some surprise at the time and no little speculation about the reasons why they had been permitted.

Of the two, the Democratic Party proved more active (although civil servants were forbidden to join) and attracted a certain amount of attention from Malaysian newspapers. This intensified when at a press conference in Kuala Lumpur last November, the party's leaders urged the Sultan to relinquish his post as Prime Minister and move towards elections.

Two months later, the party was dissolved for infringing the Societies Act and its two leaders, Abdul Latif Hamid and Abdul Latif Chuchin, were arrested under the Internal Security Act. The Sultan said the two men had been preparing to act against the security of the state, while the reason given for dissolving the party was that it had connections with a foreign organisation, the Pacific Democratic Union.

The two arrested men were understood to be planning to attend a meeting of the Pacific Democratic Union in New Zealand. They remain in detention.

The National Solidarity Party decided soon afterwards that there was no point in continuing because it had only 60

members. The Sultan said that the departing party leader had praised his leadership.

This brief flirtation with political parties was the first indication for a quarter of a century that the Royal Family might again allow a degree of liberalisation. The last elections were held in 1962 when, having scored a sweeping victory, the Partai Rakyat Brunei (People's Party of Brunei) failed in its attempt to seize power in the face of the British military intervention requested by the present Sultan's father.

In the words of the Sultan, the rebellion "left a legacy of pain and bitterness which lingered for a long time."

The consequences of 1962 are still being felt on a very personal level. Four men involved in the rebellion remain in prison, and together with the two from the Democratic Party arrested earlier this year, make up the six currently held under the Internal Security Act for political reasons.

The Sultan ordered the release of 84 detainees to mark his 42nd birthday last month. The photograph of the former detainees swearing their allegiance to the sovereign was one of the 139 photographs that week in the Borneo Bulletin.

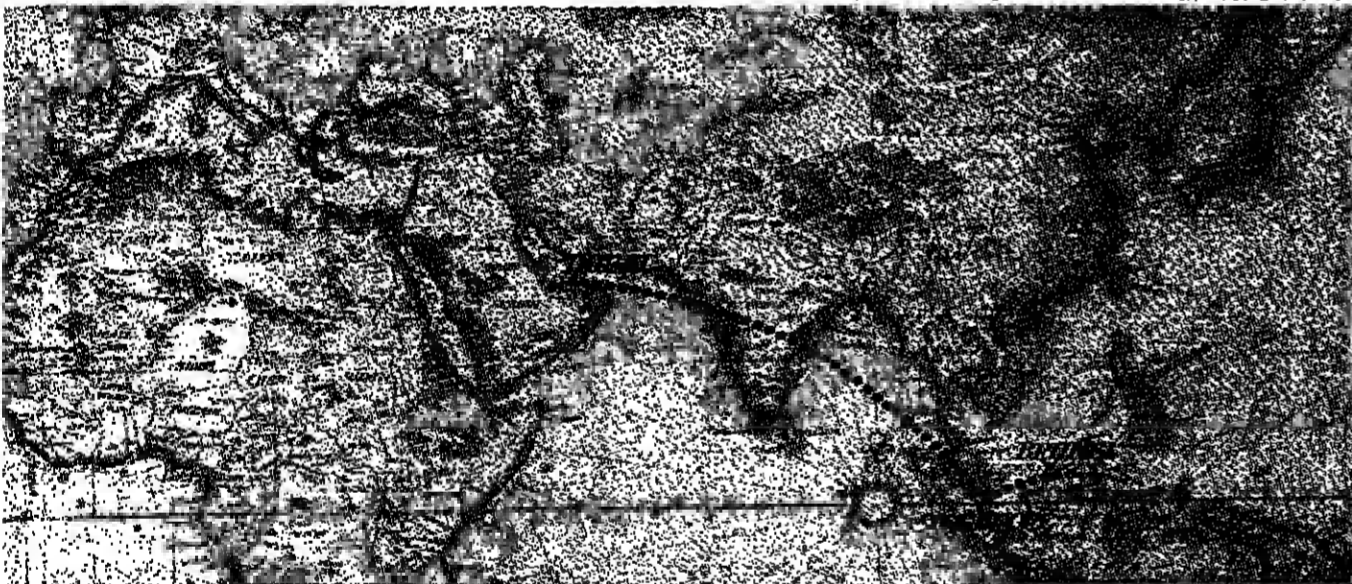
All but one of the released

men were former student activists who in the latter part of last year and earlier this year returned to Brunei from exile. They had been arrested "in order to check their activities while out of the country."

The 34th was Awang Abdul Samad who was jailed after the rebellion, escaped with others in 1973, and was re-arrested on his return to Brunei in the middle of 1987.

The fate of these men has been watched anxiously by others involved in the 1962 rebellion and who also subsequently escaped from prison. Haji Zaini Haji Ahmad, the spokesman for those men who together with their families total about 100 people, said recently in Kuala Lumpur that they were all anxious to return home. He said that they would pledge never to involve themselves in politics again, and would formally shut down the banned party.

Pehin Dato Isa, Special Adviser to the Sultan and Minister for Home Affairs, insists however that it was necessary to detain such people on their return in order to investigate their activities in exile and to be sure that they no longer posed a threat to the security of the state. He could not give them any guarantees in advance.



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"BRUNEI'S LEADING AND DIVERSIFIED GROUP OF COMPANIES"

BRUNEI 3

Roger Matthews talks to the country's head of state

In the Sultan's presence

"At an Audience with the Sultan, or one of his wazirs (principal ministers), considerable ceremony is observed. Whatever the time of day, a thick beausac candle, about three feet long, is lighted and placed on the floor alongside the European visitor, if he is a person of any rank..."

SO WROTE William Hood Treacher, an official of the Chartered British North Borneo Company, who was a regular visitor to Brunei towards the end of the last century.

Even though European representatives of the media would be unlikely to qualify for the title "person of any rank", it is fair to assume that this particular tradition in

the 500-year history of the Bolkiah family has been abandoned.

Protocol in the presence of the 29th direct successor of the line, Sultan Haji Hassanal Bolkiah, is observed by the visitor: the removal of shoes; the courtly bow; the touching, rather than grasping, of his hand; and the subsequent care to avoid crossing one's legs.

In the baroque, gilded splendour of some state rooms; in the Istana Nurul Imam (the royal palace), such formality may seem appropriate. In the Sultan's office, where high technology has been wedded to a decor beyond the scope of most interior designers, it is more a reminder of the national esteem in which he is held.

The Sultan looks younger

than his years. A few days after celebrating his 42nd birthday, and dressed in a navy blue sarung suit, only his moustache shows the first signs of grey.

No signs of the indulgences which can tempt men of immense wealth are visible, and he talks enthusiastically of his sporting life, where polo has now had to give way increasingly to badminton and squash.

To play first-class polo, he says, it was necessary to devote more time to the game than he was able. He had been forced to find other ways of keeping fit, so that he could continue to fly aircraft.

The days when foreigners seeking royal patronage in Brunei felt it necessary to know about, if not actually

play, polo, are therefore numbered. The conventionally-named Mallet Bar at the best hotel in town, where social and financial gossip flourishes, should perhaps think of changing its name.

It is an indication of modern monarchy that, although a devout Muslim, the Sultan is not an absolutist. The sale of alcohol is limited, not banned, despite some mutterings by the religious establishment.

Under the Sultan's rule, Brunei is a relatively tolerant country in which, he says, there is nothing wrong in accepting the values of Western ways "which are our way of life." Both as head of state and as the father of nine children,

he is concerned to keep out of Brunei what he describes as "certain Western patterns of behaviour."

The Sultan refers particularly to "the curse of narcotic drugs which seems to be infecting not only youth but other strata of society."

As in Singapore and Malaysia, convicted drug traffickers in Brunei face the death penalty.

It is not difficult to accept the Sultan's assertion that his public image abroad has been strongly coloured by the personal contacts he developed in the pursuit of his business affairs.

These include men such as Adnan Khashoggi, the Saudi Arabian entrepreneur; Khoo Teck Puan, the Malaysian financier, for whom an arrest warrant has been issued in connection with the fraud at the National Bank of Brunei; Mohammed Al-Fayed, who won the takeover battle for the House of Fraser; and Shri Chandra Swamiji Maharaj, a self-styled spiritual adviser,

who has made extravagant claims about the influence he has exercised over many prominent, wealthy people.

Those days, the Sultan indicates, are now over, and in future he will conduct his business through established professional advisers.

His foray into the more colourful side of international finance appears to have coincided with the declining years of his father, Sultan Haji Omar Ali Saifuddin, who caused a sensation when he abdicated in favour of his son in 1968 but continued to exert a strong influence on the young monarch's development.

It is a debt to which the present Sultan constantly refers in conversation. "My father was the architect of modern Brunei, and he showed the way to create a modern state."

"He did much to shape my approach to life, particularly the duties and responsibilities that fall upon the shoulders of a sovereign monarch."

Brunei's history and geographical location provide considerable security for the future. In an audience given to Roger Matthews, the Sultan explains his views and policies.

RM: What is the main thrust of the country's economic development?

The Sultan: Part of the infrastructure is already in place but we still have much to do under the Fifth Plan where total expenditure will be B\$2.5bn.

For development some B\$3.7bn has been allocated; 20 per cent going to social services, housing programmes and educational purposes; 20 per cent to transport and communications; 10 per cent to industry and commerce of which 5 per cent has been allocated for industrial promotion; and 10 per cent each for public buildings and security.

There has been a reduction in revenue from petroleum products as a result of lower prices and the planned conservation policy. But the fall in oil prices has not affected our development plans. On the contrary, it has increased our determination to diversify and strengthen the economy.

We have no external debt and there has been no need to borrow. There is a sound balance of trade and Brunei has large foreign exchange reserves and investments.

RM: How do you see the role of monarchy and the future political development of the country?

The Sultan: Brunei Darussalam is a sovereign, independent, democratic, Malay, Muslim monarchy. Brunei has been a monarchy since the beginning of the 15th century, some 500 years, and I am the 29th ruler. I hope that, with the Will of Allah, Brunei Darussalam will always be a Malay monarchy.

When you speak of the political structure I envisage for my people, I presume you are referring to the development of representative institutions.

My late father, Sultan Haji Omar Ali Saifuddin, gave Brunei a constitution in 1959. There were elections to the legislative council and district councils in 1962.

In a small closely-knit community the elections proved to be extremely divisive. The Partai Rakyat Brunei (PRB) won the elections and almost immediately its leader, who was not a Brunei subject, launched an armed rebellion, fomented by foreigners.

My father called on Britain to meet its treaty obligations and with the aid of British forces the rebellion was swiftly put down, but not without some bloodshed and damage to property.

The PRB was banned and the legislature suspended. The rebellion left a legacy of pain and bitterness which lingered for a long time.

My father resolved to do two things: to proceed with pro-

cesses towards more liberal institutions, and to raise Brunei's own armed forces.

A small country like Brunei, in a region entering a new era of great political change, simply could not afford internal conflict. It needed peace and stability to employ the revenue from its newly-found offshore oil for the development of social services and public utilities for its people.

After 1962, some steps were taken to reconstitute the legislature, but there was no great interest in politics. However, after the resumption of full independence, new political parties were registered under the Societies Act.

RM: What future is there for political parties?

The Sultan: I do not believe that the time is ripe for elections and a revival of the legislature. What I would wish to see first is real evidence of an interest in politics by a responsible majority of the people.

The claims of some members of political parties to be representative are simply not borne out by the facts.

The Brunei National Democratic Party (BNDP) was de-

registered recently because it

had connections with a foreign organisation, the Pacific Democratic Union, without the permission of the Registrar of Societies. It was then deemed necessary to detain under the Internal Security Act the BNDP chairman and secretary-general to prevent them from acting against the security of Brunei Darussalam.

Some members of the BNDP claimed it had 4,000 members, but the registrar's records showed that there were only 245 registered members.

The Brunei National Solidarity Party (BNSP) permanent secretary recently told the press that it was useless to continue with only 60 members. Without support the party was meaningless.

RM: How do you regard the structure of government?

The Sultan: On the resumption of independence in 1984 we introduced a Council of Cabinet Ministers with myself as Prime Minister, Minister of Finance and Minister for Home Affairs. Members of the Royal Family held the portfolios of Defence, Foreign Affairs, and Culture, Youth and Sport and Deputy Finance Minister.

Other ministries were

INTERVIEW

Time 'not ripe' for elections

headed by senior, able and experienced civil servants and technocrats with special skills.

The Council of Cabinet Ministers was reshuffled in 1985, when I retained the premiership and took over the Ministry of Defence, relinquishing the ministries of Finance and Home Affairs.

Deputies were appointed to each ministry and there has been a major reorganisation of the civil service at top levels.

The role of the Brunei monarchy is to give leadership to the people. I cannot yet forecast when the time will be right for the people to share more actively in government.

RM: What is your reaction to reports about your financial activities?

The Sultan: There has been a good deal of highly imaginative and inaccurate writing

about my activities in certain sections of the press in the UK and in other countries.

Regarding financial matters, in the past I have relied too much on personal contacts to develop my business interests. My association with some of these individuals, who tend to attract their own publicity, I believe has been the principal cause of the many false reports about me in the media.

With hindsight, I realise now that on complex financial deals it would be better for me to negotiate any future business interests through established professional advisers who can give independent advice on these matters.

I have already stated that no funds of mine were involved in the takeover of Harrods.

Regarding funds for the Centre, I issued a statement in December 1985 that I had made a personal donation to the United States to be used for humanitarian purposes in Central America. I had assumed that it had been so applied. Once the money had been paid it was beyond my control.

As you must know from lengthy press reports, the money I had donated was

found in a Swiss bank account and I ordered the money to be returned.

RM: What are the main themes of your foreign policy?

The Sultan: Brunei has excellent relations with its friends and neighbours in Asean and with members of the Commonwealth. A Bruneian is secretary-general of Asean.

Brunei has a treaty of friendship and co-operation with the UK with whom we have the most cordial relations, as indeed we do with many other countries including those in the Arab world.

Many of our students go to study at British universities and technical institutions and we have British teachers working in our schools.

RM: What is your view of the American military presence in the region?

The Sultan: We have cordial relations with the US and I believe that the American presence in South-East Asia has been a counterbalance to what has been a growing Soviet presence in the region and East Asia.

The American presence has helped to preserve stability of the region since the end of the war in Vietnam.

RM: How important are relations with other Islamic countries?

The Sultan: Islam is a brotherhood and of course we feel affinity with other Islamic countries. I have travelled widely in West Asia and have a particular affinity with the

King of Jordan and the Sultan of Oman as we were all officer cadets at the Royal Military College at Sandhurst, although not, of course, at the same time.

RM: What are your ambitions for Brunei?

The Sultan: In the 12 years before the turn of the century, it is my hope and prayer that with Allah's Blessing we shall have been able to complete our plans for every Bruneian to own a house, with all modern conveniences - electricity, piped water and sewerage even in the remotest villages.

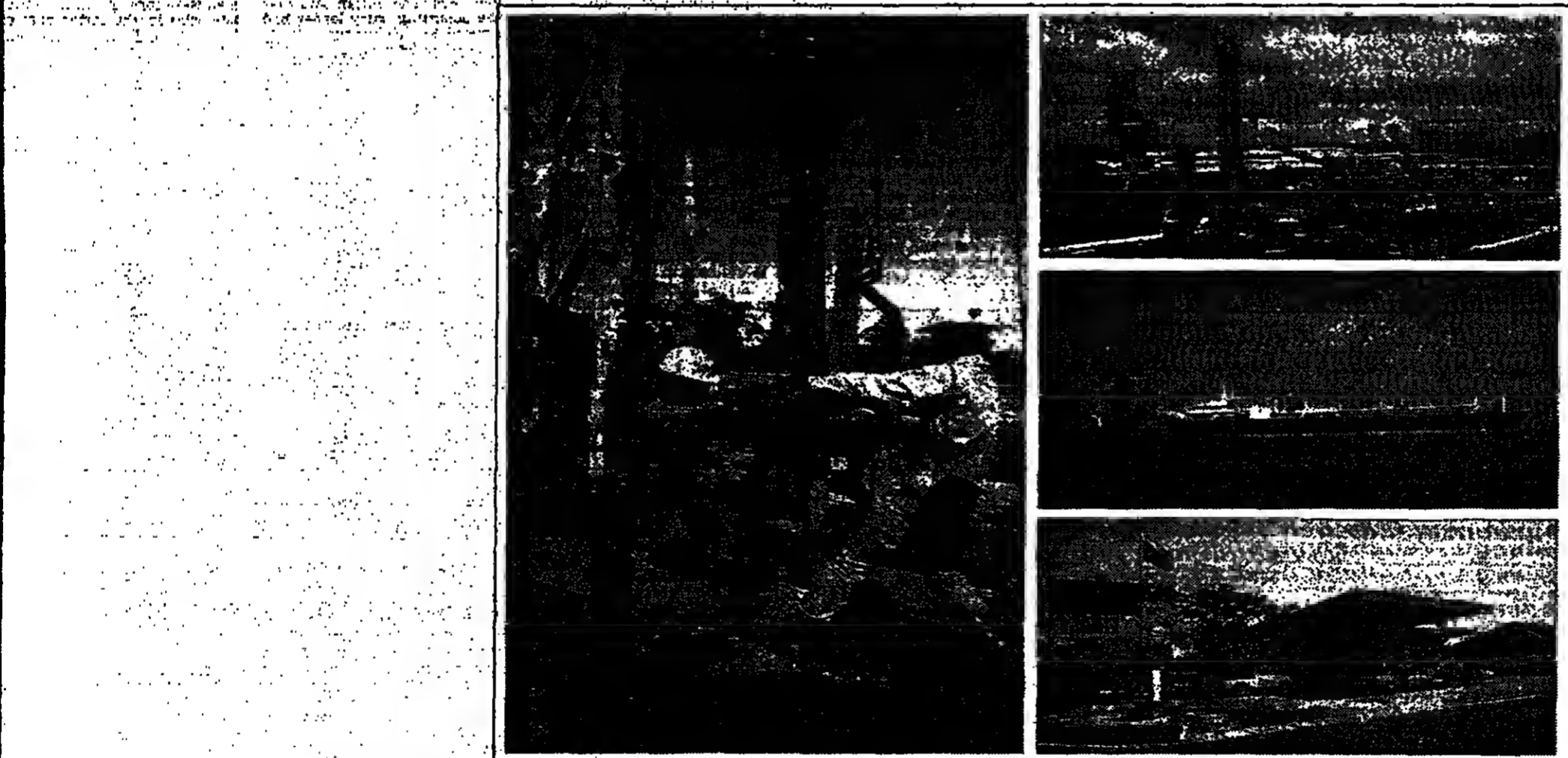
To continue providing free educational, medical and health services and expand communications.

To develop agriculture with modern methods to provide a major portion of our basic food - rice, meat and fish - which we now import.

To have trained in Brunei, and abroad where necessary, enough of our young people to occupy the highest administrative and technical posts in our oil and gas industries.

To have developed enough qualified Bruneians to play a major role in implementing the diversification programme outlined in the Fifth Plan.

And to ensure, above all, that we retain the essentially Malay and Islamic character of Brunei. Preserving the best of our traditions and customs while accepting what is best from the West and discarding what is discordant with the way of life of our people.



Nearly 90 years have passed since the oil and gas industry began in Brunei Darussalam. 1899 was the year to be exact - when the first well at Ayer Berkunci was spudded in. In the year that followed a small band of oilmen carried on the search for hydrocarbons throughout Brunei Darussalam. Then in 1929 came that sought-after moment, the discovery of the Seria oilfield. From those humble beginnings, Brunei Darussalam's oil and gas industry has grown to become a major exploration and production operation with downstream activities. Brunei Shell takes pride in its past achievements and is confident of the future of the oil and gas industry in Brunei Darussalam.



BRUNEI SHELL GROUP OF COMPANIES

BRUNEI 4

Oil production is expected to stay on the present plateau
Opec's objectives shared

ONE OF THE least tactful things a visitor to Brunei Shell's headquarters in Seria can do is refer to the company as simply "Shell." It is most emphatically Brunei Shell, a jointly-owned company in which Brunei citizens are being actively urged by company and government alike to play a larger role.

Mr George Innes, managing director of Brunei Shell, while acknowledging the need for the present policy, says it could also be constrained. However, the only circumstance he can think of when the company might ask for a policy review is if substantial new discoveries were made.

holdings and Brunei the remaining 50 per cent. Oil is sold mostly on term contracts on the basis of monthly retroactive pricing with the bulk of supplies going to Japan, Korea, Taiwan and the other members of Asean. Last year, some 20 per cent was sold on the spot market but this diminished with the signing of the first term contract for Brunei Light.



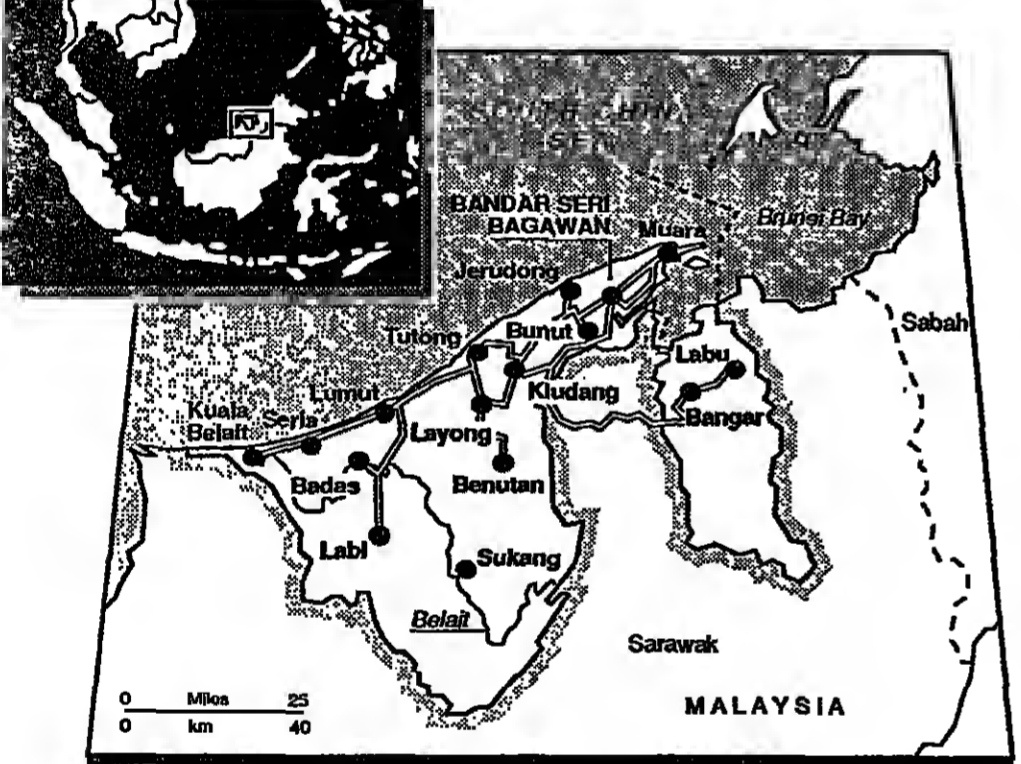
The Champion 7 production platform in Brunei Bay. The country's oil is sold mostly on term contracts

Brunei's substantial reserves may be put into merchant banking
Financial role being reviewed

AN INTERVIEW with Dato Haji Abdul Rahman, Permanent Secretary at the Ministry of Finance and managing director of the Brunei Investment Agency, is much sought after although not necessarily highly illuminating.

course the ability to perform well, but of almost equal importance was their confidentiality and maintenance of a consistently low profile.

attribute as a nation is our financial power. What Citibank does for the world we might be able to do for the region," he says.



Abdul Rahman describes the agency's recent performance in managing its funds as "excellent" and claims it did significantly better last year than the foreign institutions, in part because it anticipated last October's collapse of the equities markets, but also because its operating costs were lower.

PROFILE: ROYAL BRUNEI AIRLINES
London route sought

ROYAL Brunei Airlines has ambitions far beyond the size of the country or population which it serves. Equipped with three new Boeing 737s purchased in 1986, in addition to the 737s it also operates, Royal Brunei is steadily expanding its routes in Asia and is now actively looking for its first scheduled flights to a European destination.



Pengiran Tengah: buying wide-bodied aircraft

Other ideas which are slowly being explored include seeking to offer Brunei as a minor regional hub as other airports, such as those at Singapore, Bangkok and Hong Kong become more congested.

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A gentle pace

Continued from Page 1
crucial since no formal method of consultation exists and the Sultan rarely makes speeches.

As one Bruneian puts it: "We used to be satisfied with very little. Now we want more."

THE FIRST THING YOU NEED TO KNOW ABOUT BRUNEI
Advertisement for Brunei tourism featuring Sheraton Ulu Temburong Hotel and other attractions.

MANAGEMENT

Amstrad Picking the cherries in Asia

David Thomas examines the UK consumer electronics group's Far East operations

Although much ink has been spent trying to understand Amstrad, one facet of the hugely successful UK consumer electronics group has received scant attention: its activities in the Far East. In the past the company has been less than eager to let outsiders wander round its Far Eastern operations - a reticence reflecting the fact that they are second in importance only to what happens at its Brentwood headquarters.

Yet Amstrad's control of its Far Eastern operations is a model of its kind. The company, headed by its clear-thinking founder, Alan Sugar, is a new type of phenomenon - one which exploits to the full the modern international division of labour. Amstrad can keep its costs and therefore its prices low by, in Sugar's words, "cherry picking" from the world's manufacturers; with consumer electronics that means mainly from Asia.

So while Amstrad notched up pre-tax profits of £90.12m on sales of £251.06m in the first half of this financial year, its own workforce is small. In Hong Kong, Amstrad's Asian base, the company employs less than 500 people, around 400 of whom work in its small factory making printers.

Amstrad's cramped Hong Kong office hardly looks like a nerve centre for one of the most successful British companies of the decade. Shared with a textile concern and tucked away in Kowloon's jewellery quarter, about 70 engineers and administrators control the company's web of sub-contracting, purchasing and shipping arrangements in the Far East.

At the heart of these is Amstrad's network of major sub-contractors manufacturing the company's computer, audio and video products. Amstrad depends on them for its most fundamental requirement - products at the right price and quantity for the high streets of



Stan Randall and Callen So: studying China's manufacturing potential

Europe. This explains the care with which a new sub-contractor is chosen.

In one recent case, says Stan Randall, Amstrad's head in Hong Kong, the company was impressed by the product coming out of a Taiwanese factory which it had not used before. Amstrad's Hong Kong engineers took the factory's products apart, studying the techniques used by their Taiwanese counterparts. They worked out a price and quality specification for a large quantity of a particular Amstrad product. "At that stage, the factory didn't even know we were interested in them," Randall says.

When Amstrad knew what it wanted and the price it was prepared to pay, its team visited the factory. They spent four days crawling over its premises. Satisfied with what they found, they began negotiating an order for 200,000 of the products.

Amstrad keeps tight control over its sub-contractors. Randall, one of only two people from Britain employed by Amstrad in the Far East, insists on up to five of his Hong Kong engineers working full-time in a sub-contractor's factory when a new product is being introduced. Amstrad supervises and pays for the installation of new tooling for its products. Once a sub-contractor is selected, Amstrad maintains presence on quality through a team of 20 inspectors, based in Hong Kong, who are constantly visiting the sub-contractors.

Randall, who was Amstrad's purchasing manager in the UK before setting up the company's subsidiary in Hong Kong in 1981, says Amstrad uses its printer factory there as a testing ground for innovative production ideas. Sandwiched into four floors in Kowloon, the plant will be churning out 50,000 printers a month by the end of the year. Printers were chosen as the sole product for

audio products hail from Taiwan, with dual sourcing for products made in large volumes.

But with Taiwan and Korea becoming more expensive, Randall foresees this pattern changing, with some products being sourced in Thailand or China (see opposite).

Amstrad's Japanese computer sub-contractor is worried by the instability and the rising currency in Korea. It has kept Amstrad briefed on its plans to build a plant in Thailand, raising the possibility that Amstrad might start making its computers and word processors at its Thai facility.

Amstrad also retains flexibility and keeps the lid on prices through a tight grip on its purchasing. Every month its Hong Kong office gets bills of materials from its sub-contractors. Its staff pore over these, trying to spot components which Amstrad, with its large purchasing muscle, could buy more cheaply. A central purchasing department at Amstrad's UK headquarters also monitors prices worldwide. Recently, for instance, it came up with a cheap source of mains lead in Portugal.

The company's Hong Kong staff, mainly in their 20s and 30s, are central to all these

activities. They also help with the design of Amstrad's products to a surprising degree, although the Brentwood headquarters has the final say. When I visited, a young Hong Kong engineer was working on a design for a new Amstrad printer. Design ideas flow back and forth between Hong Kong and Brentwood by fax.

Engineers and technicians in Hong Kong are in chronically short supply. Randall's response is to give talented staff responsibility and recognition as early as possible, whatever their formal qualifications. Thus Isaac Ip, now number two in the engineering department, was originally employed as a routine draughtsman. Randall encouraged Ip's early interest in design, with the result that Ip came up with a more efficient mouse for Amstrad's personal computer.

But perhaps the outstanding example of Amstrad giving its Hong Kong staff their head is Callen So. She was one of Randall's first employees when she joined Amstrad as a 19-year-old secretary. Seven years later, she is a linchpin of Amstrad's operations as the company's sales and marketing director in the Far East.

She is responsible not only

for a fair slice of Amstrad's purchasing in the Far East, but also for shipping Amstrad's products to customers in Europe, the other side of the Hong Kong operation. Both Alan Sugar and Randall are fulsome in their praise of So.

Amstrad benefits from its trust in its Hong Kong staff. Randall, married to a Chinese woman himself and with little time for the expat British community, says it helps to pick up commercial gossip in the region. It also comes in useful when preparing for his annual negotiations with his main Japanese suppliers; he goes in for role-playing exercises, with his Chinese lieutenants including Callen So pretending to be his Japanese adversaries.

Yet even Amstrad's smooth Far Eastern machine sometimes breaks down. Randall remembers the time shortly after the launch of Amstrad's first personal computer in 1986 when customers in Europe were screaming for them but the Far East was embarrassingly slow in supplying them. "Everything went wrong at the same time. There was a component shortage. There was a mammoth fire in a plastics factory in Taiwan. It was one thing after another. Callen and I didn't get much sleep."

Why China beckons

AS COSTS escalate in Amstrad's traditional suppliers such as Korea and Taiwan, the company is thinking hard about sourcing components and products from China. "It's quite obvious; they have the manpower and they have the spare capacity," says Alan Sugar, Amstrad chairman.

Stan Randall, head of Amstrad's Hong Kong operations, and Callen So, Amstrad's marketing director in the Far East, have been studying China's manufacturing potential for over a year.

They started by picking up local information about factories regarded as efficient within striking distance of Hong Kong and then began visiting them. They are now sourcing the mouse for Amstrad's computers from one of these on a trial basis.

Randall is also in negotiations with a high tech facility north of Peking used in China's missile programme, which is eager to fill up its spare capacity with civilian electronics work. But Randall remains worried by several features of doing business there.

Quality. Amstrad insists on setting up the engineering operation and controlling quality in Chinese sub-contractors as it does in all the Far East plants - arrangements which the Chinese are not used to.

Hong Kong staff. Keeping a tight grip on quality will mean having one or two of its Hong Kong engineers stationed permanently in Chinese factories - a very unpopular idea.

Many companies in Hong Kong have to offer their workers huge sums to persuade them to do a stint in China. Callen So has spent time in China looking for apartments and domestic staff of a quality to compensate Amstrad's Hong Kong engineers for what they regard as the deprivations of living in China.

Communications. Hong Kong workers' fears about working in China are eased if the factory is within reasonable distance of home. Randall also worries about keeping in touch with a Chinese sub-contractor.

If they have no fax machine, I get nervous. If it takes two days to get there, I get nervous," says Randall. He seems sure Amstrad will do much more business in China - but adds: "There's no panic. People go at a very slow pace there."

Management abstracts

Decision Support flexible manufacturing systems. S.K. Kossichev and C.F. Schultz in Omega (UK) Vol 15 No 6 87 (8 pages).

Describes a decision support system to aid choice of FMS, according to predicted characteristics (such as machine utilisation), by examining costs and benefits as well as providing simulated scenarios of performance.

Success factors in product innovation. R.G. Cooper and E.J. Kleinschmidt in Industrial Marketing Management (US) Aug 87 (8 1/2 pages).

Reports on a study that investigated the fate of 200-plus new products, and obtained information on factors such as product differential, attractiveness of market, risk to end-customer, fit between the project and existing resources, and "determinants" (extent of definition prior to development). Draws conclusions. Financial analysis of manufacturing technologies. M.C.O'Guin in Industrial Engineering (US) Nov 87 (4 1/2 pages).

Describes an approach to capital investment justification which puts product quality improvement into the process. Looks at traditional cost justification techniques which ignore accelerating technological innovation and points out how catastrophic this can be, e.g. NCR wrote off \$140m in inventory and points out how catastrophic this can be, e.g. NCR wrote off \$140m in inventory and laid off 20,000 employees when it finally realised that electro-mechanical cash registers had been eclipsed by electronic machines. Explains that the new approach starts with establishing customer-perceived quality and attributes of the company's products; shows that any investment justification involving improved quality attributes must include increased cash flow - as well as cost savings - derived from their increase in market share. Better ways to collect information from clients. L. Novelli and W.R. Flynn in Journal of Management Consulting (Netherlands), Vol 3 No 4 87.

Stresses that rapid data collection at the start of an assignment offers many advantages, and compares two techniques, viz. focused discussion and nominal group technique; favours the latter.

These abstracts are condensed from the abstracting journals published by Anderson Management Solutions. Downloaded copies of the original articles may be obtained at a cost of £4 each (including VAT and postage with order) from Anderson, PO Box 22, Wembley HA9 6DU.

Contracts & Tenders

TEACHERS' SUPERANNUATION

ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Department of Education and Science, Scottish Office, and Department of Education Northern Ireland, propose to extend the range of AVC facilities currently available to members of the teachers' superannuation schemes. Currently total membership of the 3 schemes is approximately 633,000.

The Departments are seeking for each scheme a provider of money purchase AVC facilities including an option for benefits payable on death in service.

It is expected that institutions appointed to provide AVC facilities will offer worthwhile concessions on management and other charges, and favourable administrative arrangements including assistance with the monitoring of emerging benefits against IR limits.

Applications are invited from institutions providing AVC facilities as principals. It is not intended to consider proposals from agents or intermediaries.

Intrastad organisation should seek a detailed specification from Mrs H S Mackenzie, Pensions Branch, Department of Education and Science, Mowden Hall, Staindrop Road, Darlington, Co Durham DL3 9BG by 12 August 1988.

IV PROJECT POWER REHABILITATION PROJECT KHARTOUM VEHICLE PROCUREMENT

The Government of Sudan has secured loans from the International Development Association (IDA) in various currencies towards the cost of the Power IV Project and the Power Rehabilitation Project. It is intended that part of the proceeds of these loans will be applied to eligible payments under the contract for vehicle procurement for the National Electricity Corporation.

The IDA financed contract would be open to World Bank member countries, Switzerland, Taiwan and China. The National Electricity Corporation therefore invites sealed bids from eligible bidders for supply and delivery of the following vehicles:

- 3 minibuses
- 2 trucks (chassis only)
- 28 utility vehicles
- 8 saloon cars
- 10 motor cycles

No pre-qualification will be necessary.

Bid documents are available from the address below at a cost of US\$30 per set starting from 15th August 1988.

Bid closing date is 29th September 1988.

Prospective bidders may request documents from:

Mr J.D. White / Mr A.P. Ward Ewbank Price, Price House, Devilgodd Road, Hove, East Sussex BN1 1RZ

Telex 878102 EPLETN G Telephone (0273) 724533 Fax (0273) 200483



GOVERNMENT OF INDIA AIR HEADQUARTERS - INDIAN AIR FORCE TENDER NOTICE

On behalf of the President of India, Director of Purchase Air Headquarters, IAF invites sealed tenders on prescribed forms from manufacturers, stockists registered with MOD/BSI, on approved list of FSB, London; of Air HQ, India for supply of the following stores on FOB basis:

NATURE OF EQUIPMENT	TENDER NOS.	TENDER OPENING DATE
(a) Cold Weather Flying Clothing	NR/8825405	15 Sep 88
(b) Aviation Oils & Lubricants	NR/8825401	30 Sep 88
(c) Aircraft Instruments	NR/8825400	30 Sep 88
(d) Hunter Airframe	NR/8825055	30 Sep 88
(e) Tiling Machine for Aerial Films	NR/8825010	30 Sep 88

Tender documents can be had from the office of the Director of Purchase, Air Headquarters, Vayu Bhavan, New Delhi 110 011 (Telex 31-65622) (Tele: 301-7664/301-1754) on payment of £10/- per tender by Demand Bank Draft Payable to CDA(HQ), New Delhi at State Bank of India, New Delhi. However, message through telex may be sent in advance and payment follow. Tenders will be opened at 1430 hrs on the date. Sale of tender documents will close on 23 Aug 88 for Sd No. (a) above and on 30 Aug 88 for others. Samples will be required against Sd No. (a) above which may be sent in advance as per directions in the tender documents. Only those who can offer stores with suitable AQAP and Def Stan certifications, their NATO/BSI equivalent or Release Notes (in the case of manufacturers) may seek tender documents. Copy of MOD/BSI approved authority authorising issue of inspection certificates for the range of stores offered is essential. Where stockists propose obtaining services of other agencies for inspection/quality assurance, approval accorded to them by MOD must accompany tender documents. Tender offers will not be considered if they are late or if documents as prescribed are not enclosed.

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Company Notices

ENTE NAZIONALE PER L'ENERGIA ELETTRICA (ENEL) U.S. DOLLARS 300,000,000 FLOATING RATE NOTES DUE 2000

Due to a delay totally independent of the duties and the supervision of Ente Nazionale per l'Energia Elettrica (ENEL) ("ENEL") the notice of prepayment on September 6, 1988 of the Notes relating to the subject issue was published on July 18, 1988 rather than July 8, 1988 without giving the sixty days notice provided for in clause "Purchase and Redemption" of the Terms and Conditions of the Notes.

However, since each Noteholder is at liberty to waive his right to a sixty days notice, such provision being for his sole benefit, ENEL will prepay at par on September 6, 1988 the Notes to all those Noteholders who will present their Notes to the principal paying agent or to any of the paying agents of the subject issue.

Such presentation by any Noteholder will imply a full waiver of any claim, complaint or action in any way related to or consequent upon the involuntary failure to give at least sixty days prior notice according to the Terms of the above mentioned clause.

Furthermore, ENEL communicates that the Notes not presented for payment as indicated above, will be prepaid at par on the next interest payment date falling in March 1989 and hereby gives notice of prepayment for such date as provided for in clause "Purchase and Redemption" of the Terms and Conditions of the Notes.

The present notice is being given after consultations with the Representatives of the "Masse" of the Noteholders.

Luxembourg, July 28, 1988

THE PRINCIPAL PAYING AGENT
SOCIETE GENERALE ALSACIENNE DE BANQUE
15, avenue Emile Reuter
LUXEMBOURG

ENTE NAZIONALE PER L'ENERGIA ELETTRICA (ENEL) U.S. DOLLARS 300,000,000 FLOATING RATE NOTES DUE 2000

Société Générale Alsacienne de Banque, Luxembourg Branch ("SOGENAL") informs the Noteholders that it offers to pay a special premium of 0.07 per cent on the principal to all the Noteholders of Ente Nazionale per l'Energia Elettrica (ENEL) U.S. Dollars 300,000,000 Floating Rate Notes due 2000 who will present their Notes for prepayment to it in its quality of principal paying agent or to any of the paying agents of the subject issue.

The payment of this premium will be added to the payment of the coupon and reimbursement of the notes on September 6, 1988.

Luxembourg, July 28, 1988

SOCIETE GENERALE ALSACIENNE DE BANQUE
Luxembourg Branch

CITY OF LONDON PROPERTY

The Financial Times proposes to publish a Survey on the above on Friday 23rd September 1988

For a full editorial synopsis and advertisement details, please contact:

JONATHAN WALLIS
on 01-248-8000 ext 4196
or write to him at:
Bracken House, 10 Cannon Street
London EC4P 4BY.

Clubs

ENEL has advised the others because of a policy on fair play and value for money. Support from 10:30 am. Disco and top musicians, glamorous hostesses, exciting atmosphere. 189, Regent St. 01-734 0507.

Art Galleries

PATRICK GALLERY 11 Motcomb St, SW1 St 250 8144 QUADRANT MARCHING (1807-1862) Paintings & Drawings

Kleinwort Benson

Kleinwort Benson Limited announces that with effect from 1st August 1988, the mortgage base rate will be 11.4% per annum and the personal loan base rate will be 10.4% per annum.

Bryant Construction Invest in Quality Solihull Bracknell

Mixed batch for Tarmac

Contracts worth about £12m have been awarded to TARMAC CONSTRUCTION. One of the largest, at £5.3m, is for building a factory, office block and associated external works at Rugby, for Vekaplast Company (U.K.).

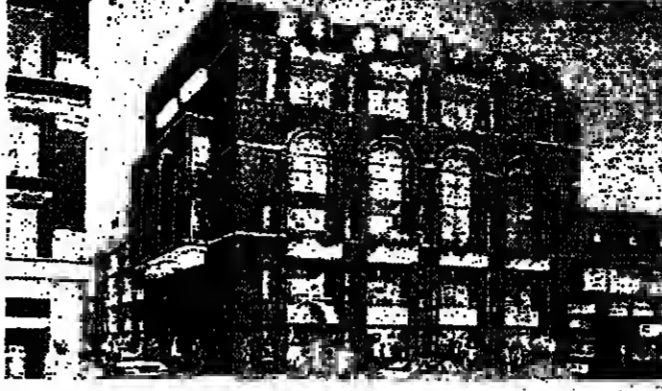
£90m orders for AMEC

Construction group AMEC has won orders totalling £90m. Fairclough Building is to build two eight-floor office blocks in the City of London, and carry out a major extension to Whitgift School in Croydon.

company has worked continuously for the last fourteen years. It is likely to necessitate the recruitment of a least 50 technical and administration staff plus an as yet unspecified number of trades people.

The work will be disciplined by extremely stringent quality specifications, with all welds, totalling over 165,000 weld inches, being non-destructively tested for defects.

City of London project



HIGGS and HILL MANAGEMENT CONTRACTING has started work on a £4.2m six-storey office block to be built at 80-86 Old Street, London EC1 for Palmerston Property Developments.

Offices for Slough

WILTSHIER SOUTH MIDLANDS, a division of the John E Wiltshier Group, has started work on two contracts worth a total of £3.2m. At 281/296 Farnham Road, Slough, the company has a £2.2m contract to build an office development, for sister company Wiltshier Estates & Developments.

Swindon computer centre

ALFRED McALPINE MANAGEMENT has won four contracts totalling more than £17m. The company has been appointed designer for a £10m computer centre at Swindon for the Department of Health and Social Security.

£5.75m, the project is due for completion by April 1989. Work is due to start on extensions to the TV Centre, West London, for the BBC in a £750,000 contract, to be completed by October.

Alfred McAlpine Construction has been awarded six orders totalling more than £5.5m. They include a contract for a two-storey reinforced concrete structure to the first passenger satellite building at Stansted Airport, value £2.4m; and further work at the Stanlow Refinery for Shell UK, including construction of piled foundations for a pipetrack, value £1m.

FINANCIAL DIARY

Table listing company meetings, board meetings, and other financial events for various companies on August 1, 1988.

Table listing company meetings, board meetings, and other financial events for various companies on August 1, 1988.

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DIARY DATES

Trade Fairs and Exhibitions: UK

Table listing trade fairs and exhibitions in the UK, including dates, locations, and organizers.

Overseas Exhibitions

Table listing overseas exhibitions, including dates, locations, and organizers.

Business and management conferences

Table listing business and management conferences, including dates, locations, and topics.

Unit Trust Year Book 1988

The explosion in activity in the unit trust market means that the investor now faces a choice of more than 1,200 authorised trusts offered by more than 160 management groups.

Investment Bond Year Book 1988

Designed as a companion to the successful Unit Trust Year Book, the Investment Bond Year Book fills a major gap in the published information available on investment bonds and the linked insurance funds.

Private Investor's Ledger 1988-89

The ledger enables the private investor to keep a total record of all his investments in one place. Making entries and calculations becomes easy and convenient.

The 1988 Investor's Companion to the Top 100 Companies

This is the first and only comprehensive guide to the components of the FT-SE 100 Share Index. The Investor's Companion explains how each company works, provides a perceptive appraisal of their performance, and analyses each company's operations and business position.

Financial Planning for the Individual

by Alan Kelly, Partner, Grant Thornton (2nd Edition) This guide provides you with essential information on investment planning, unit trusts and investment bonds, pension arrangements, tax planning, personal pensions, personal equity plans, a Personal Financial Planning Questionnaire and a 'Living Fidelity Log'. A 1988 Budget Addendum is included.

A Guide to Financial Times Statistics

Do you really know how to get the most out of the statistics pages of the FT? The Guide provides the answers. It gives all

Financial Times Guides to Investment and Financial Planning. Includes images of book covers for 'Unit Trust Year Book 1988', 'Investment Bond Year Book 1988', 'Private Investor's Ledger', 'The 1988 Investor's Companion to the Top 100 Companies', 'Financial Planning for the Individual', and 'A Guide to Financial Times Statistics'.

ORDER FORM. Please return to: The Marketing Department, Financial Times Business Information, 7th Floor, 50-64 Broadway, London SW1H 0BB Tel: 01-799 2002 (Mail order address only). Please note payment must accompany order. Prices include postage and packing.

The information to make the FT work for you and enables you to benefit financially. It includes a revised chapter on commodities, and essential information on the World Stock Markets following the Crash of '87. Invaluable to both the expert and the general reader wishing to know how the market works.

Working Abroad - The Expatriate's Guide

by David Young (3rd Edition) Considerably expanded the 3rd edition of Working Abroad is the indispensable guide to living and working overseas. Offering advice on all the essential aspects—both personal and financial—of moving and working abroad, the book helps expatriates to maximise the benefits of overseas employment.

Understanding Finance with the Financial Times

by Terry Byland, FT Journalist As the title suggests, this book in conjunction with the Financial Times will help explain the workings of the financial world. Contents include: the workings of the Stock Exchange following the Big Bang of 1986, the calculation of the FT Index, the London Share Information Service, Trading on the Stock Market, the Government Securities Market, UK company results, takeover bids, international company results and progress, the International Capital Markets, commodities and Agriculture, UK and International economic news, national and international editions. Essential for executives, new investors and students.

Public Relations Year Book 1988

The Public Relations Year Book, published in association with the Public Relations Consultants Association, gives you instant access to the best PR has to offer. It is full of relevant information on the many experienced and professional member-consultancies operating today, and their particular specialisations. Whether you are already using a PR consultancy or are considering using one, the Public Relations Year Book will help you to decide the most suitable solution for your organisation.

Investing for Beginners

by Daniel O'Shea (3rd Edition) This investment guide analyses in a practical way the basic principles of stockmarket investment, discusses the advantages of different categories of quoted investment, examines a whole range of related essentials such as the interpretation of company accounts, and gives an up-to-date review of relevant tax rules. An ideal guide for people new to the stockmarket, as well as experts.

Investor's Guide to the Stockmarket

by Gordon Cummings (4th Edition) Completely revised and updated in the light of the 'Big Bang' this edition explains the workings of the stockmarket and how to profit from it the D-I-Y way. It gives advice on how to set up and manage an investment portfolio, and make the best use of your capital.

ARTS

ARMCHAIR ARCHITECTURE

A summer to spend by a fire
Colin Amery leafs through some holiday reading

This summer in England it has been ideal for curling up in the evenings by the fire with a good book... This book explores ideas at the level of both professional theory and the reactions and definitions of the consumer.



Theodore Bary as Ramiro and Anna Steiger as Concepcion
Ravel double bill

It is difficult to think of a pair of operas more perfectly suited to Glyndebourne than these... The prospect of seeing them at Glyndebourne, the most intimate of all our opera theatres, should be enough to hush up any Ravel enthusiast.

SPONSORSHIP

Minister purrs at money for museums

The Minister for the Arts, Mr Richard Luce, was purring last month at a lunch organised to celebrate yet more sponsorship for the V & A... Each is sponsored, most notably by Wiggins, a property development company active in the nearby Docklands.

Zemlinsky, Mahler

The BBC Philharmonic Orchestra visited the Proms for a pair of concerts at the end of last week... Because his works are 'symphonies' conceived within the context of late Austro-German romanticism, there is a natural inclination to treat them as clones.

Blood Brothers

I have always been faintly puzzled by the intended level of Wally Russell's musical melodrama about twin Liverpool brothers separated as babies whose paths cross in friendship and finally bloodshed... Presumably serious overtones - poverty, inner city deprivation, economic pressure on morality - are drowned by glibly popping facetiousness.

The show is back

rected at the end of the pier 70 years ago... Both brothers are truly awfully played as kids, rather more bearable as adults. But they struggle against the inept rhymes of Russell the lyricist, monotonous wistful chorus of Russell the composer and sticky mix of poetic portentousness (superstitious shrieks, dimmed lighting, ominous chords at such omens as magpies or shoes placed on the floor).

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ARTS GUIDE July 29-Aug 4

- MUSIC London: BBC Symphony Orchestra, conducted by Lohar Zagroski... Paris: L'Opéra de Paris... Amsterdam: The Gabrieli Consort under Paul McCreesh... Tokyo: Hiroko Nakamura (piano), NHK Symphony Orchestra... New York: Mostly Mozart Festival...

London Symphony Orchestra BARBICAN HALL... What Salzburg is looking forward to next week, London audiences have been long enough to preview already... account of its rhapsodic beauties than it had here.

Robert Thomson reflects on three years of change in China

The Yugoslav time bomb

IT IS A sobering thought that the most vulnerable East European economies, the ones most often in need of international propping up or bailing out, are those most receptive to and ready to implement, the sort of economic liberalisation measures championed by Mr Mikhail Gorbachev...

Weak government

However, there is no reason to believe that these efforts to ease the pressure on Yugoslavia, with its soaring inflation, crippling foreign debt, record unemployment and mounting social and political unrest, will prove any more successful than similar efforts in the past...

Still working on secrets

THE BRITISH Government's declared willingness to listen to counter-arguments from critics of its proposals for reform of Section 2 of the Official Secrets Act 1911 is to be welcomed. The Minister of State at the Home Office, Mr John Patten, told the House of Commons on July 22 that "every dot and comma" has been set in concrete...

Blanket coverage

In the absence of any mechanism for parliamentary scrutiny, the proposals for a new Section 2 that make it an offence for any member of the service, or any other designated person, to disclose any matter at all relating to the service unless authorised to do so, should not be accepted in that form by either House...

The images of change are obvious in China: the Marlboro Man billboard greeting passengers at Shanghai railway station, the bulldozed back street and crane-topped buildings of Peking, the peasant sitting atop an overloaded truck holding a newly purchased Japanese television set...

But the party can claim the present as a victory: rapid growth, international reassessment of China's place in the world and seemingly boundless potential. Industrial output is increasing at an annual rate of 20 per cent, though inflation is not far behind...

If China thrives, the international order will be altered. It could have the world's second largest economy by 2010

are fatigued. There is a sense that the party has lost its mandate because of the "Great" mistakes since the 1949 Revolution - the Great Leap Forward and the Great Proletarian Cultural Revolution - though there is also a sense that there is no alternative...

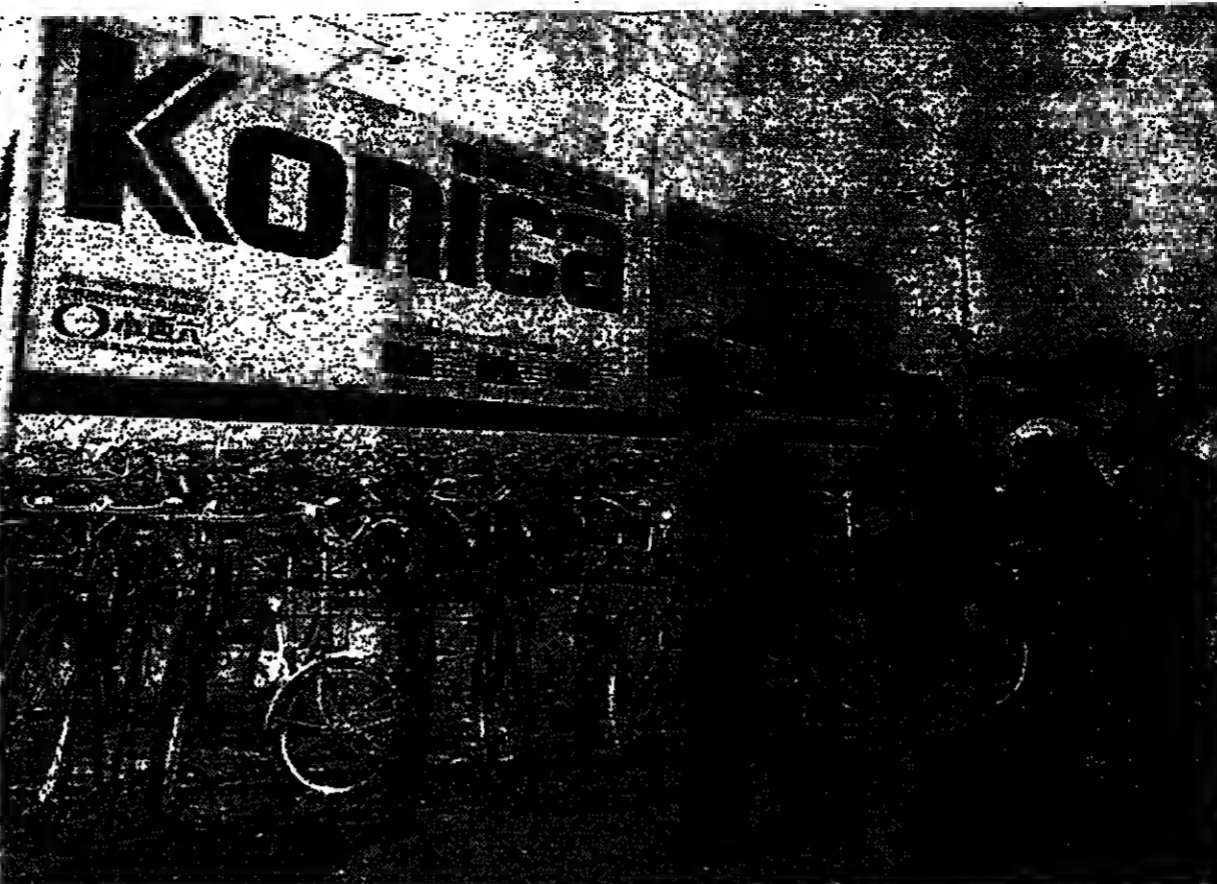
The Old Lady shows off

You have to wear a hard hat in the Bank of England nowadays, or at least in quite a bit of it. For the construction men are in - not just drilling holes through the walls, as they have been doing for years, to keep the Old Lady up with the electronic age...

The Bank had a museum already, but it was very small, very private and did not even have a catalogue. The new one will be open to the public and may be the biggest and best central bank museum in the world...

Originally, the two men thought about creating it to celebrate the Bank's 300th anniversary in 1994. Then there was the great fire two years ago - and the insurance money to go with it. Although the precise sum has still to be agreed by the insurers, it must be upwards of £1m.

"The old museum was about money," said a Bank spokesman. "This one will be about the Bank, its history and its role in the world." Not only will there be all the documents about its founding when it raised £1.2m for the King in 11 days; there will also be a Doric temple to gold, containing real gold bars from the vaults, some of them from Roman times...



Unknown quantity of reform

But the party can claim the present as a victory: rapid growth, international reassessment of China's place in the world and seemingly boundless potential. Industrial output is increasing at an annual rate of 20 per cent, though inflation is not far behind...

The formidable party apparatus has been pointed towards reality since a landmark meeting in late 1978, but that does not mean it is fixed in place and that the apparatus cannot be turned around. A genuine change is that party members are more diverse...

The latter experience gave me that old "nothing has changed" feeling, though this dissipates with a drive through rural China, where peasants have taken the phrase "jianshe" (build a country), rather literally and are building themselves new and sometimes comfortable houses...

OBSERVER

Ne Win loses

U Ne Win may still be in power in Burma from behind the scenes, but something has happened to his name. It means "rising sun", but only if Win is pronounced with a strong stress. If it is pronounced with a soft falling tone, it means "sunset". The soft falling tone is now in...

New Devon

John Caff will be leaving the Confederation of British Industry towards the end of the year to be the first managing director of the Devon and Cornwall Development Company. Caff, 51, has been director of the economics section of the CBI since 1983. He was previously in the diplomatic service and the Treasury and his arrival at the CBI was regarded as an upgrading of the job...

Mellon's move

Sir James Mellon, Britain's Director-General of Trade and Investment in the US, is to exchange the life of a diplomat in New York for the task of tackling Scotland's housing estates. Mellon, who retires from the diplomatic service at 80 early next year, is to be the first part-time chairman of

Issues of Government Stock

Table with columns for Stock, Redemption date, Interest rate, and Issued. It lists various government stock issues including Treasury Stock, Index-Linked Treasury Stock, and National Loans Office Stock.

Professionals

Headlines in a local newspaper: "Hooligans try to ruin Hamlet, but Amateurs succeed." This is a satirical headline about a production of Hamlet.

Haig Simonian examines West Germany's success in high fashion

A cut above the rest

There is no avoiding them. The blond, tanned and attractive models, seemingly fresh from the yacht club or the piste, stare out from the pages of West Germany's glossy magazines.

Nor is there any need for elaborate copy. Unlike the message from the well-dressed and healthy-looking young men and women is clear. Top German designers and fashion groups like Hugo Boss, Escada, Jil Sander, Wolfgang Joop or Mondri have become household names, and the pictures speak for themselves.

In recent years, their language has become increasingly international. Undaunted by the strong D-Mark and longer-established competitors in France and Italy, West German designers have been gaining ground in Europe and the US. Now they have South America and the Far East in their sights.

How have the Germans, with a steadily rising currency and some of the highest manufacturing costs in the world, managed it? And how is it, in a country known more for its post-war technical entrepreneurs like Helmut Nixdorf and Max Grundig, that it is the fashion houses which have seemingly taken over the entrepreneurial torch?

The growth of German fashion is certainly impressive. Hugo Boss, which has become internationally known for its men's clothes through advertising and placement on popular television shows like Miami Vice and LA Law, lifted its sales by 21 per cent to over DM 500m (£177m) last year, while profits rose to DM 22.5m.

It is a similar story at Escada, the Munich-based company that makes glittery women's sweaters and clothing under its own and the Laurel and Crissa labels. Bolstered by new products and acquisitions, Escada's sales rose to DM 366m last year from a lowly DM 50m in 1980, while pre-tax profits reached almost DM 28m.

Both Boss and Escada are now public companies. Yet most top German fashion names, such as Jil Sander, a former model and fashion journalist who now runs a highly successful company making exclusive women's wear, have remained private.

Despite the differences in size and ownership, there are some strong similarities between the top German fashion groups which help to explain their extraordinary success in what should be an almost impossible task. The winning formula has been a mixture of good, up-market design, high quality materials and manufacturing, some foreign production in order to contain costs, and prices which, if hardly cheap, are not outrageous. To these, the Germans have added a characteristic reputation for consistency and reliability.

"I'm very pleased about the devel-

opment in Germany. I see myself a bit as the initiator," says Ms Sander in her cool white Hamburg offices. An enigmatic mixture of arrogance and shyness, she speaks candidly about how she sees her role in the rise of German high fashion. "I did a lot as a precursor," she says.

Yet despite their own individual achievements and strong in-house design abilities, Italy plays an important role for many of the leading German houses. Occasionally it is for design, almost invariably for materials, and sometimes for manufacturing too.

Italian fabrics, along with some from France and the UK, play a key role in Jil Sander's clothes. At Boss, Italian textiles have almost a monopoly because they are so "fashionable and creative," says Mr Konrad Judd, a young member of its managing board.

Production is another matter. Both Boss and Escada concentrate much of their work in Germany, despite the high costs. Boss, based in Metzingen, a small town set amid rolling hills south-east of Stuttgart, has about 1,000 employees scattered among a number of factories and workshops in the town and its surroundings. Escada does virtually all the work on its top-line Escada range either at its own factory or through sub-contractors around Bavaria.

The reasons are quality-based again. "Quality is the most important thing for the Escada range and we can get that best in Germany," says Mr Herbert Hirtz, a member of its managing board with 20 years experience in the German rag trade.

All the top fashion designers have so far eschewed production in the Far East, preferring other European Community countries when it comes to manufacturing abroad. Italy is again the favourite.

Quality remains uppermost even outside the homeland. Boss has a 30-strong team supervising the foreign production from start to finish. "It's important for us that no one should be able to tell where something of ours was made," emphasises Mr Judd.

It is as much in marketing and sales as in production that the Germans are an object lesson. "Exclusivity" is a catchword throughout - especially at top names like Jil Sander and Escada, whose customers need to have sizeable purses. Escada blouses cost anything between DM 300-500, while Jil Sander's pieces, which are not one-offs, but nevertheless are only produced in small runs of 30-50 as a minimum, range from DM 450 for a skirt and DM 1,500 for a dress.

Not surprisingly, "exclusivity" stretches to marketing too. Franchising, the preferred method, gives designers the chance to show their clothes to best effect in the right surroundings while relieving them of



heavy fixed costs. Of the major brands, only Boss has avoided own-name shops in favour of its own domestic sales force and a network of exclusive agencies abroad.

Quick diversification is the Germans' other lesson so far. Spreading sales is essential for all high fashion designers, whose products can hardly be sold in volume in one place.

Immediately neighbouring countries like France, Switzerland and Austria have usually been the first foreign targets. "We now have a very good share of the Belgian and Swiss markets for top quality clothes," notes Mr Hirtz. "But there's not much growth potential left there. Thus other parts of Europe and the US follow in 1977, less than a decade after the brothers Uwe and Jochen Holy reintegrated Boss, it started selling in the US.

There has been "practically continual" growth since, says Mr Judd. The firm's Rocky IV, which featured Boss, clothes, "brought us an amazing pub-

lic," he says. US sales, which had remained fairly modest in the first three years, "really took off" after 1980 and now amount to some 10 per cent of the group's DM 530m annual turnover.

But excessive dependence on the US can have its problems, as Escada learned to its cost when the dollar started to slide in 1986-7. The company lost \$2.5m in the US in 1986, and currency concerns were soon reflected in its share price, which suffered as some investors took fright at a possible parallel with Puma, the sports shoe and clothing manufacturer whose equity soared on flotation only to crash as US sales slumped.

Escada's recent acquisitions of more domestically orientated, middle-market clothing companies like Schueberger and, this year, Kemper, reflect a desire to gain stability by raising the share of domestic sales in group turnover. But all the German designers, almost irrespective of their price bracket, are wary about the

future if dollar weakens further.

All the fashion groups are trying to protect themselves from radical currency swings by broadening their markets and their ranges. The Far East and South America are the two key future markets. "Hong Kong, Korea, Taiwan and Brazil have become increasingly interesting" for Boss, says Mr Judd.

Meanwhile, the temptation to capitalise on a name and diversity from clothes into accessories and even cosmetics or "lifestyle" products appears almost irresistible. Despite her company's relatively small size, Ms Sander is one of the foremost exponents of this. The Jil Sander range has been steadily broadened to include not just women's accessories, but, increasingly, men's clothes and items too.

Among the licensed goods sold under the Jil Sander label are glasses and ties. But it is cosmetics, manufactured by Becham of the UK, which has been pushed too hard, with too much euphoria in the press and at the regular Düsseldorf and Munich fashion fairs. "I've distanced myself a bit" she says, explaining that her clothes are only shown in Hamburg and Milan now.

Mr Judd, whose company's clothes appeal to a much broader spectrum, is more confident. But he agrees there seem to be fewer young designers in the pipeline. One of the problems is the temptation for young designers to go abroad, to Italy, or especially to Paris. Mr Klaus Steilman, who owns Europe's biggest ready-to-wear women's fashion group, with dozens of in-house designers, says: "We need a fashion capital. It is one of the biggest problems. When you have a fashion capital you get all the PR benefits too."

A little more prizzz in Germany about fashion in general is what he would like to see. Making more room for fashion in the country's sober daily papers would be a start. But gaining support from the politicians would be better still. In subsidy-rich Germany, it is not state aid Mr Steilman is after, but interest. "In France, everyone looks at what Mrs Mitterrand wears. Before it was Jackie Kennedy. Who cares in Germany? We need to get public opinion makers interested in the fashion lifestyle, then we can build up new creators."

LOMBARD

The shopper's lament

By Christopher Parkes

LIME GREEN socks embroidered with silver inner are easy. No trouble, either finding a Royal Stewart tartan bow tie or a brass lion's head door knocker with matching footstaple. These are "niche" retailers in almost every British high street, able to supply these specialist desires.

Other, less glamorous exotica, such as whistles, fish bones, slide mounts and even light bulbs are a different matter. The whistle is particularly tricky. It's the wobbly thing - about so big - which screws onto that funny little flange in the top left hand corner of the lavatory cistern. Mr Hatchet, the ironmonger used to keep them in a box on the top shelf next to the mousetraps, and sell them at 4p a throw.

The boy wearing a lapel badge and a blank look in the do-it-yourself superstore (which has driven Mr Hatchet out of business) would not know a whistle if it was screwed into his earlobe along with all the other bric-a-brac. In the absence of intelligent advice, the shopper's only solution is to scour the miles of shelves among the garden furniture and Black & Decker. There he may eventually find a £1.99 screwpack of six whistles - which could well turn out to be whistles when he prises them free of their obscuring shrink-wrap.

Mr Finny the fishmonger used to be happy to supply sole bones and cod heads for stock and soup. But he has gone the way of Mr Hatchet; the fish counter at the supermarket sells only those species of fish which seem to have been born filleted, headless and swaddled in plastic parceling. The 1980s retailer does not mind slow movers in the checkout lines, but there is no place for them on his shelves. Items too small to carry a barcode strip or a regulation profit margin are either not available or sold in multipacks.

Where are the advantages arising from the retailing revolution which began with the arrival of the self-service grocer 20-odd years ago, which has now swept through every sector? Lower food prices? With the big five supermarket

chains monopolising the food business, and matching one another more or less penny for penny, competitors are meaningless.

Of course the convenience of one-stop buying is a help to consumers. But in a country where fewer than 40 per cent of women (who still do most of the shopping) are car drivers, the concentration of retailing has tended to make shopping a family affair which devours a weekend free time. Rationalising this coercion, certain multiples have had the nerve to classify shopping as a leisure activity.

Large stores offer an enormous breadth of choice in their merchandise, but relatively little depth. This approach has produced openings for the niche retailers, which have waxed fat by selling nothing but socks, ties or underwear. But the less glamorous specialists like ironmongers have no future in nuts and bolts when their most profitable lines are being sold down the road by the container-load for less than they can buy them wholesale.

A small window of opportunity opened in the 1970s to allow entrepreneurs to open delicatessens. More recently, there were signs that the specialist baker might have a chance of a look-in as the issue of "real" food emerged to enliven the dull old grocery business.

These windows slammed shut when the supermarkets leached on them, adorned their stores with traffic-building delicatessens and performed the air with in-store bakeries. Creaming off a crucial proportion of the interlopers' potential clientele, they seduced shoppers with convenience - and rewarded them with pale, mass-market syntheses of the delicatessen and the craftsman baker's shop.

Despite corporate claims, the benefits and advantages of the retail revolution devolve almost entirely on the side of the multiple retailer. They are moving, increasingly in that direction as the shift of the shopkeeper's primary responsibility from individual customers to institutional shareholders - becomes the industry norm.

LETTERS

Costs to dwell on

From Mr A.F. Smith. Sir, For the time being at least, the Department of the Environment has rejected the Treasury's proposal for monkeying with the retail price index (RPI) to exclude the cost of mortgages. Perhaps in lieu of the mortgage lending rate the Treasury would prefer to insert the actual rise in the price of the dwelling itself. Not just the interest cost, but the increasing amounts of principal required to be borrowed give rise to inflationary pressures.

This Government prides itself on having tamed inflation. I would be glad to differ while house prices are increasing between 20 per cent and 50 per cent per annum.

Piper Alpha estimated losses made clearer

From Mr Martin Lovegrove. Sir, On July 25 Mr Cecil Parkinson, the Secretary of State for Energy, announced in the House of Commons that the loss of production from Piper and its associated fields, resulting from the devastation of the Piper Alpha platform, would deprive the balance of payments of "something less than £300m." He went on to describe an earlier unofficial estimate of £500m as "excessive", and explained that this was based on the assumption that the fields associated with Piper Alpha would remain out of action until the end of March next year.

Given that there has been considerable publicity on this discrepancy, and the fact that I was the author of the "unofficial estimate", it might be useful if I clarified two issues. First, my estimate of £500m related to the remainder of the financial year (that is, to early

April 1988). The Secretary of State's estimate of "less than £300m" (which we believe actually meant closer to £250m), on the other hand, related to the remainder of the calendar year (that is, to the end of December 1988). My paper spelt out that for the period to the end of December 1988 the loss might be £370m, although this did not take into account the cessation of the "invisible" remittance of profits, and so on, by foreign licensees to their parent companies, which the Secretary of State's estimate apparently did. The value of these remittances could be of the order of £80m, which would mean that our £370m impact would be reduced to £290m. It is this last figure that should be compared with the Secretary of State's estimate.

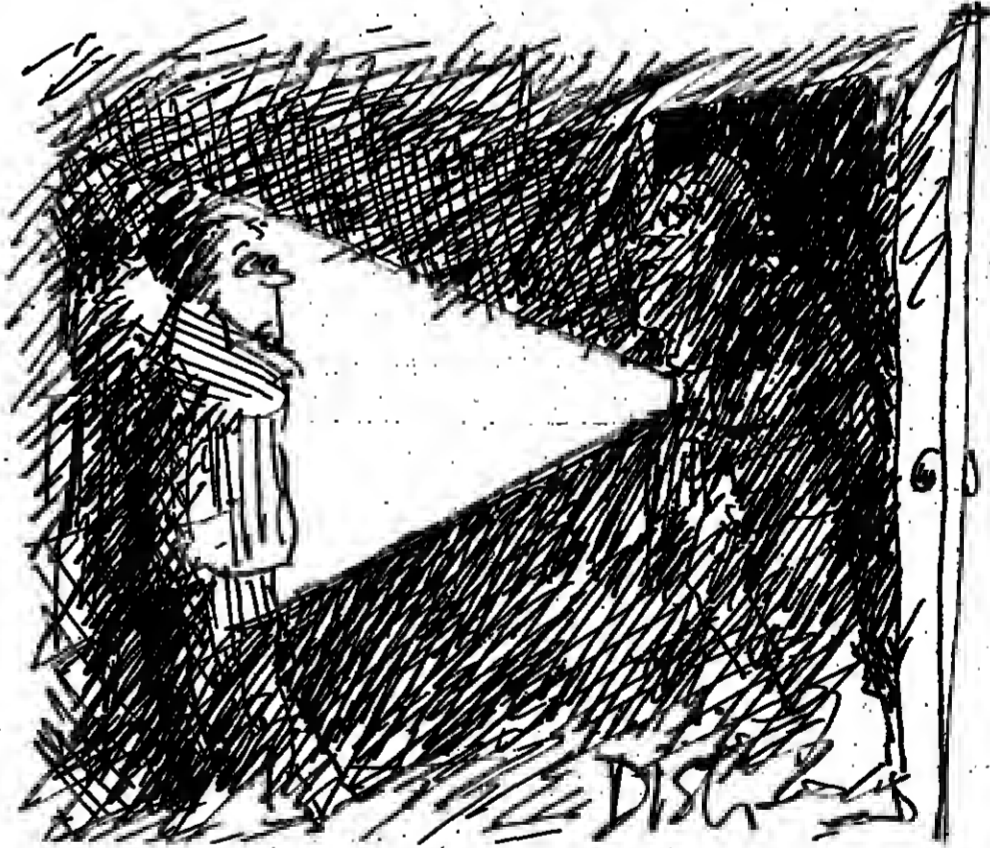
The second point is that my paper clearly stated that we saw production from Tartan, Highlander, Petronella and Scapa resuming "within 40 to

80 days", albeit possibly with some restrictions initially. On Claymore, I said that production might not occur "before the end of this year". In all cases, I forecasted the resumption of production well before March 1988.

So the main cause of our difference in forecasts with those of the Secretary of State for Energy is the timing of the production start-up from the Claymore field, in that the Department of Energy believes that restricted production could recommence in October or November. At this stage it is very difficult to say who is right, although both forecasts - I would contend - represent reasonable ends of a range, given the current number of uncertainties. The differences, then, are not "excessive".

Martin Lovegrove, James Capel & Co, James Capel House, 6 Bevis Marks, ECS

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Cheese paring at Paddington

From Mr W.J. Phillips. Sir, Why has the Government chosen Paddington as the terminus for a fast rail link to Heathrow (July 21)? Paddington is the remotest of London's main line stations: it can take 20-30 minutes to reach the West End and an hour to the City on the overcrowded tube.

The ideal route is from Waterloo: the main Central London rail-head for the Channel Tunnel, with City connections through the "Drain". Airport trains should run via Richmond (or the underused

Hounslow Loop) and Feltham to Heathrow Central, Terminal Four and - optionally - West Drayton. A single stop between London and Heathrow, at Clapham Junction, would give fast Heathrow-Gatwick connections, obviating a noisy helicopter link. The line would also meet trains from southern and south west England, and from the Midlands and north en route to the Channel, via Olympia. At West Drayton the Heathrow line would pick up passengers from Bristol, South Wales and

the M4 corridor. (A park-and-ride facility here would relieve Heathrow's congested approach roads.)

British Airports' Paddington proposal, like the Docklands Light Railway, is a cheese-paring effort. The line seems designed to be isolated from most of the nation's rail system - just when Olympia and Thameslink trains are beginning to span the capital's main-line north/south divide. W.J. Phillips, 20 Ormond Avenue, Hampton, Middlesex

Paid up

From Mr P.A. Nicholson. Sir, Michael Prowse asserts (Lombard, July 15) that motorists pay only a fixed fee for the use of UK roads. Could someone explain to Mr Prowse that a large part of every gallon of litre of fuel, petrol or diesel, is accounted for by tax with VAT on top? So we already have a system whereby the more you drive - particularly in congested periods, when all vehicles use more fuel - the more you pay. Is that clear now? P.A. Nicholson, 12 Southwood Mansions, NW

JPH 1/2/88

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Janet Bush on Wall Street

Reformers run against the clock

A STORMY voting session in the House Banking Committee last week which eventually backed extended powers for commercial banks to engage in securities activity amounted to rather less than a Pyrrhic victory for the banks.

While it conceded wider powers, it also wrote into the proposals a number of onerous restrictions on marketing and capital adequacy and imposed new regulations in the area commonly known as consumer protection.

The proposals are likely to stick in the throat of Mr John Dingell, chairman of the House Energy and Commerce Committee, who strongly supports the separation of banking and securities underwriting set up by the 1983 Glass-Steagall Act.

In fact, the House proposals do not seem to have any fans. The banks are already actively lobbying against passing any banking legislation this year although, on the surface, they remain committed to Congressional efforts to get something on the statute book.

As one banker put it: "We have spent months striding up neutral Congressmen and giving them arguments for comprehensive banking deregulation. It is a little difficult now to turn around and say, go kill it guys."

The securities industry, in points terms on the losing side so far is, ironically, probably now more committed to the legislation than the banks.

A statement by the Securities Industry Association, which has waged a war against expanded securities powers in the courts and lost every battle, said it could not support the House bill but was committed to legislative efforts to reform Glass-Steagall.

There are two reasons for this. First, the SIA is aware of the significant erosion of Glass-Steagall barriers through legal precedent. Several major commercial banks were recently given the go-ahead, under certain conditions, to underwrite commercial paper, mortgage-backed securities and revenue bonds.

Secondly, a hotch-potch banking law with all kinds of rules, restrictions and anomalies for the banks could be the most effective way of maintaining the monopoly of the securities industry.

The next stage in this marathon is consideration of the House Banking Committee by Mr Dingell. After a few amendments a lot of controversy and many more days, the bill may eventually reach a conference between representatives of both houses where it will be considered along with the Senate bill.

Staffers at the Senate Banking Committee say they believe that there could be a conference in September. If it is much later than that, the clock will have run out, and bank reform will have to be left to President Dukakis or to President Bush.

Those involved as lobbyists for opposing factions of the financial industry regard the politicking, patch rivalries and inordinate delays in coming to an acceptable legislative compromise as simply representative of the US political process. But while the Proximes, Dingells and St Germain (chairman of the House Banking Committee) fight it out among themselves, is there a risk that the US financial industry is going to be put at a competitive disadvantage?

One of the subjects most mentioned by participants in the industry worried about the competitiveness of the US financial industry (in common with the rest of US industry in these days of the assault of Japan and Europe on corporate America) is the manufacture of a single market in Europe.

As the securities industry lobbyist put it: "There is a distinct possibility that in 1992 the US financial system will be the only one remaining which imposes restrictions on a number of its participants." And America hates to be behind the times.

Mr Lee tucks an ace up his sleeve Roger Matthews watches Singapore prepare for a new leader

TINY Singapore has become a wealthy island in the 23 years since it became fully independent. Under the relentless drive of Prime Minister Lee Kuan Yew it has amassed reserves of at least US\$17bn, achieved a per capita income higher than some Western European countries, and built an infrastructure that is internationally envied.

But Mr Lee is now approaching the twilight of his career and, like self-made businessmen who have amassed large fortunes, wants to tie up his bequest so that more prodigal members of the family cannot fritter away the company's hard-won assets. And, as is the way with long-serving leaders, he is privately favouring a successor that those in line to succeed him as Prime Minister are fully up to the job, even though he has picked them himself.

Accordingly, on Friday, proposals were presented in the Singapore Parliament for an elected Presidency to replace the present ceremonial post. The people will be able to vote, but only a handful can qualify as candidates.

The qualities required of a presidential candidate - whose suitability will be judged by a committee of three or five eminent persons - were listed. He (not she) will have held high office, have an astute view of the national interest, have experienced the pressures of government decision-making and have the courage to disagree with the government when the national interest so demands. No prizes need be offered for guessing which Singaporean best fits that description.

The new President will not have executive powers as such, but he will be a powerful man. He will be able to block the spending of the country's

Although Singapore's Prime Minister Lee Kuan Yew, right, is approaching the twilight of his career he has no plans to quit the political stage entirely. Under his drive he has seen the island state amass considerable reserves as well as achieving a per capita income that is higher than some Western European countries. Now, Mr Lee is anxious that these gains will not be frittered away when he retires.

Accordingly, last week in the Singapore Parliament, proposals were tabled for the creation of an elected president who will have no executive powers but will nonetheless be a powerful man. In effect the government's team's goal-keeper. No prizes are being offered for guessing the candidate most likely to succeed.

reserves broadly defined to encompass statutory boards and government-owned companies, and he will advise on, or veto, the appointment of top civil servants, including judges. He will be able to attend and make speeches in Parliament and has the right of access to all government departments.

To develop Mr Lee's own favourite footballing metaphor, the President will be the team goalkeeper, rallying the country's defences, blocking shots from the other side and watching out for errors that could lead to own-goals.

His sides also like to think of him venturing uphill occasionally to bludgeon the opposition. And had Mr Lee watched this year's live Cup Final broadcast from Wembley on Singapore television he may have been gratified to note that the winning side was captained by the goalkeeper.

The image of the President as custodian was emphasised



in Parliament on Friday by Mr Goh Chok Tong, the first deputy prime minister, and the man whom the Cabinet has apparently agreed should succeed Mr Lee.

Mr Goh stressed that after an elected Presidency, the Prime Minister and Cabinet would continue to govern Singapore. However, it is clear that future Prime Ministers will not be able to govern the country as Mr Lee has done.

This serves another purpose. There is a fear lurking beneath the normally bland surface of the dominant People's Action Party that its grip on the affections of the Singaporean electorate may be weakening. It lost over 12 per cent of the popular vote in the last elections in 1984. Although only two opposition members of parliament were elected it was a severe jolt to the PAP's self confidence.

Mr Lee is far less in tune with the younger generation of English-educated voters than

he has been with those who experienced the traumas of independence. His warnings of the threat of communist subversion may appear absurd to those for whom Marx is more closely linked to Spencer than to politics.

The recent use of the Internal Security Act to jail without trial alleged subversives, many of them graduates, served to fuel an image of a harsh, intolerant government.

It came to a peak most recently with the Government's extraordinary campaign to destroy the reputation of Mr Devan Nair, a former President.

Some Government MPs are aware of the damage which may have been done. Speaking in Parliament on Friday, Dr Alvin Wong said that there was a widespread perception in Singapore that this spurt of events was aimed at warning government critics, or worse, cracking down on dissent.

Such comments may not advance Dr Wong's political career as recent similar assertions by foreign newspapers have drawn a hostile official response. But they do point up the possibility that a larger proportion of the electorate might vote against the ruling party, irrespective of the qualities of an opposition candidate.

If elections are held before the end of this year as expected, it is unlikely that there will be sufficient opposition candidates to contest more than half the seats. Of these, few will fit the government's ideal of an "honourable Confucian gentleman".

Equally, and far more probably, should Mr Goh Chok Tong soon become Prime Minister, there will be an elected President to watch over him and his colleagues. Mr Lee as ever, is leaving as little as possible to chance.

THE LEX COLUMN

The Texas price of confidence

The \$4bn rescue of First Republic Bank, Texas's biggest financial institution, may not be quite as large or as dramatic as the 1984 bailout of Chicago's Continental Illinois, but it nevertheless underlines the steep price that US banking regulators are having to pay to maintain public confidence in the safety and soundness of the US banking system.

First Republic is not a money centre bank and did not save the international obligations of Continental Illinois - which made the regulators so nervous in its case. Yet despite the Reagan administration's support for the market, the US authorities felt that failure to protect all First Republic's depositors, both big and small, was too great a risk to take.

The other message to come out of the latest US bank rescue package is that all concerned are learning from their earlier mistakes. One of the main criticisms of the authorities' handling of the Continental Illinois failure was that by rescuing the holding company, rather than just the bank, the US Government saved bond holders from financial loss. This time the Federal Deposit Insurance Corporation's generosity does not extend to the \$1.2bn of debt and preferred stock owned by the holding company, and this will probably be as worthless as First Republic's shares which have fallen from \$25 to \$1 over the last year.

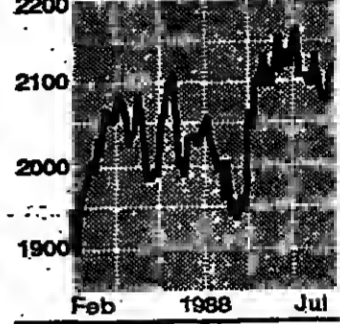
Meanwhile, NCNB is anxious not to follow the example of Chemical Bank, whose eagerness to take over Texas Commerce Bank without seeking additional Federal help, has severely damaged its stock market rating. NCNB is paying a little over \$200m, the bulk of which will be refinanced by a convertible preferred issue, for control of an institution which will double its size and immediately contribute to earnings, while the FDIC is providing 60 per cent of the capital of NCNB Texas National Bank and guaranteeing the \$5bn or so of troubled loans.

The political importance of the argument turns on whether it can be used to make RHM a special case. In refusing to act, on Rowntree, Lloyd Young made the general point that a protectionist policy on bids is economically inefficient. To reverse that, it might be necessary to argue specific inefficiencies resulting from the bid, whether in RHM's operations or in the market for bread.

Whatever the Government decides, the same arguments have their force with the institutions. The first duty of fund managers is to achieve the best

return for their members, but they could well tire of being cast yet again as bloodless financiers, selling Britain at international auction. Add to that the tax disadvantages arising from the predominantly cash nature of the offer, and it would not be at all surprising if the institutions turned down the bid as it stands.

It all depends, though, on how much stock the institutions still hold. Goodman now has 29.99 per cent, and can double count on whatever is held by the arbs. If the bid results in a stake of anything over 40 per cent, Goodman could surely wait for 12 and then pick up the rest. One way or another, RHM's best hope by this stage seems to lie in a burst of protectionism.



that since Goodman's 465p offer is plainly something of a steal - at 15 times prospective earnings - RHM might ultimately be obliged to bring in a counter-bidder to obtain proper value for shareholders. Now, by contrast, there is a hint of nervousness about Goodman's bid being either blocked by the authorities, or rejected out of hand by the institutions.

Takeover Panel

The courts may have, once again, dealt Guinness a blow over the issue of compensation for former Distillers' shareholders: but that should not obscure the fact that the real battle is likely to be between Guinness and the Takeover Panel, and not between Guinness and the law. Many weeks of appeals could yet intervene, but if the Panel's conduct is upheld again judicially, and by its own Appeal Committee, then Guinness may have to pay up or face the consequences.

The Panel refuses to be drawn on the size of any eventual compensation, but the potential consequences of flouting its authority are in the Code for all to see. At least in theory, Guinness could face pariah status in the City of London; and no doubt, a few months without benefit of merchant banker, broker, charged accountant or stock exchange listing would prove a salutary experience. But the Panel obviously hopes it does not come to that - well it might, as it could find the City less than unanimous in black-balling the company - so the betting must be on some kind of negotiated deal.

The snag here is that the Panel's room for manoeuvre could be limited. The level of compensation according to the Takeover Code would be a matter for mathematicians rather than judgment. And whereas insisting on the letter of the Code might drive Guinness into non-co-operation, an overt bargaining process might have the effect of undermining the Panel's authority. There is still a lot to play.

Anti-Mafia judge quits Italian crime fight

By Alan Friedman in Milan

ITALY'S battle against organised crime suffered a setback at the weekend with the resignation of a group of officials including Judge Giovanni Falcone, the Palermo-based magistrate who is the nation's leading anti-Mafia investigator.

The resignation comes amid mounting frustration on the part of Judge Falcone and his colleagues in the "anti-Mafia pool" of magistrates. They allege that state and local officials are interfering with the fight against the Cosa Nostra.

Mr Falcone tendered his resignation and asked to be transferred to another job in a letter to the Superior Council of Magistrates in Rome, the body which oversees Italian judges.

The judge has lived under armed guard for years and has seen several of his colleagues murdered by the Mafia. He has complained of "inertia" in the struggle against the criminal organisation. The biggest revenues come from the international heroin trade, which has been estimated at up to \$10bn a year.

Mr Falcone is the man who convinced Mr Tommaso Buscetta, a Mafia don, to turn state's evidence in the so-called maxi trial, a major Mafia probe which ended last December with 338 convictions, including that of Mr Michele Greco, known as the Pope of the Mafia or the "Cupo di capi" (head of heads).

Mr Falcone's recent work has taken him deeply into investigations of the links between the Mafia and Italian politicians, an extremely delicate area. His complaints of lack of support have already attracted the interest of President Francesco Cossiga, and yesterday Mr Leoluca Orlando, the anti-mafia mayor of Palermo, backed up Mr Falcone's allegations.

Continued from Page 1

with Baghdad on a peace settlement.

Mr Riyad al-Qayl, Iraq's UN ambassador, told reporters in New York that the three meetings which the Secretary General, Mr Javier Perez de Caeallar, had held with Mr Tariq Aziz, the Iraqi Foreign Minister, last week had focused solely on the procedural issue of Iraq's demand for direct talks.

His statement followed a fifth meeting on Saturday between Mr Perez de Caeallar and Mr Ali Akbar Velayati, the Iranian Foreign Minister, who is resuming direct talks until a ceasefire is in place.

It came amid mounting international pressure on Iraq to show greater flexibility. Ambassadors from the five permanent members of the UN Security Council in Baghdad last week urged the Iraqi Foreign Ministry to moderate its line, and there are reports that senior politicians from Western countries have been in touch with Iraqi President Saddam Hussein on the issue.

For their part, the Iranians are arguing Mr Perez de Caeallar to announce a ceasefire date regardless of whether Iraq agrees. Mr Mohammad Jaafar Mahallati, Iran's UN ambassador, told the Islamic Republic news agency on Saturday that the Secretary General had been mandated to announce a ceasefire date by the Security Council.

RHM

A curious thing happened to RHM's shares on Friday: they slipped - ever so slightly - below the Goodman Fielder bid price. Their earlier premium was based on the argument

Moscow clears way for Eurocard and Eurocheque

By John Lloyd in Moscow

THE FIRST small step towards transforming the Soviet Union into a credit card society was taken in Moscow over the weekend.

Licensing agreements signed between the Vnesheconombank, or bank for foreign economic affairs, and the Eurocard and Eurocheque international organisations, said Moscow Eurocheque companies will extend, in slow stages, the benefits of card and cheque transactions to foreigners visiting the USSR and then - it is hoped - to widening circles of Soviet citizens.

The Soviet and Western partners to the agreement claimed the deal as the first of its kind - although Visa has in the past signed an outline agreement, and the Vnesheconombank has for two years extended cash advances to Eurocard/Mastercard holders.

Mr Viktor Geraschenko, the bank's first deputy chairman, acknowledged that he did not

expect the Soviet Union's 280m citizens to become card holders overnight.

His comment reflects a sober sense of the difficulties of persuading Soviet citizens to conduct transactions in any medium other than cash. Fledgling cheque accounts offered since the beginning of the year by the domestic savings banks have encountered distrust from Soviet suppliers.

The bank intends to press ahead with a three-phase programme aimed at popularising the medium. In the first instance, some 1,000 foreigners are expected to make use of the card and cheque facilities, and will be able to write cheques in roubles in places that are prepared to accept payment in other than cash or hard currency.

In the second year of operation, the 150,000-300,000 Soviet diplomats, business executives

and technicians with convertible rouble accounts at the Foreign Affairs Bank will be gradually brought within the system.

The third and final stage is to attack that hinterland of 280m citizens. Mrs Anna Cobbi, general manager of Eurocard international, said Moscow City Council had told her that it was keen to popularise the idea of credit cards.

Mr Geraschenko said that discussions had taken place between the bank and the savings banks a credit card operations, and added that the banks had also discussed issuing cards on their own account.

Both sides accept that progress will be slow. The computer systems needed for credit card operations simply do not exist, the resistance to credit is large, and the range of goods for sale to the general public remains narrow.

Orders for airliners set to break record

By Michael Donne, Aerospace Correspondent

SHARP growth in air traffic, coupled with fleet renewal by airlines, seems certain to make 1988 a second record year for airliner purchases worldwide.

Last year the aircraft manufacturing industry took orders for 738 commercial jets worth more than \$39bn.

In the first seven months of 1988, more than 600 new jets have been ordered, and a number of large orders are expected over the next few months.

So far this year, for example, Boeing, the world's biggest jet builder, has secured firm orders for 444 new jets, worth more than \$20bn, against its 1987 total of 366, worth nearly \$20bn.

Airbus, the European consortium,

has also had a good year to date, with orders for 88 A-300s, A-310s and A-320s, worth more than \$3bn, against last year's total of 114 new airliners worth \$4bn.

McDonnell Douglas has had first half orders of 69 short-to-medium range MD-80s and nine of the new long-range MD-11 tri-jets. Last year McDonnell Douglas booked new orders of 143 jets (MD-80s and MD-11s) worth over \$6bn.

Boeing is forecasting sales worldwide for all manufacturers in the year 2005 of \$44bn. The most factor behind the growth in orders is the growth in traffic, which this year has averaged about 10 per cent over last year. Airlines are also replacing existing fleets.

Iran pledges to end raids on shipping

Continued from Page 1

with Baghdad on a peace settlement.

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His statement followed a fifth meeting on Saturday between Mr Perez de Caeallar and Mr Ali Akbar Velayati, the Iranian Foreign Minister, who is resuming direct talks until a ceasefire is in place.

It came amid mounting international pressure on Iraq to show greater flexibility. Ambassadors from the five permanent members of the UN Security Council in Baghdad last week urged the Iraqi Foreign Ministry to moderate its line, and there are reports that senior politicians from Western countries have been in touch with Iraqi President Saddam Hussein on the issue.

For their part, the Iranians are arguing Mr Perez de Caeallar to announce a ceasefire date regardless of whether Iraq agrees. Mr Mohammad Jaafar Mahallati, Iran's UN ambassador, told the Islamic Republic news agency on Saturday that the Secretary General had been mandated to announce a ceasefire date by the Security Council.

Genscher talks ally fears

Continued from Page 1

reception room. The table, only 1.5m wide at the centre, stands in a window, rather than in the middle of the room, according to a report on Soviet television.

Judy Dempsey adds from Vienna: The Vienna review meeting on the Conference on Security and Co-operation in Europe (CSCE), scheduled to take a recess last Friday, was prolonged under West German insistence so as to coincide with Mr Genscher's visit to Moscow. The outcome of his visit could influence the East-West talks in Vienna.

WORLD WEATHER

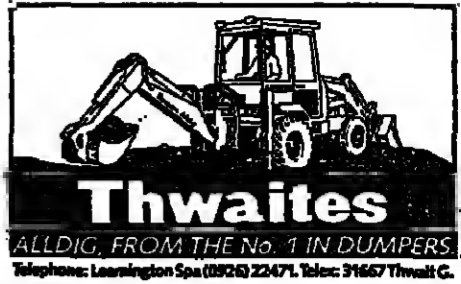
Table with columns for location, temperature, and other weather data. Includes locations like Alaska, Alberta, Bohemia, etc.

MANUFACTURERS HANOVER Keeping Interest Rate Cap Prices The first screen quotations by any bank are now available on the Reuters page, "Kaps." Prices Quoted by Manufacturers Hanover Trust Company a worldwide leader in providing interest rate protection programmes. August 1988 The Investment Banking Group

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for urban renewal

FINANCIAL TIMES COMPANIES & MARKETS

Monday August 1 1988



INSIDE

Just the ticket for De La Rue

De La Rue, the UK security printer and printing technology group, has bought ILS Systems, a Dutch specialist lottery ticket printing group, for £3.9m (\$8.7m). The deal gives De La Rue, in which British publisher Mr Robert Maxwell and associates hold a 14.9 per cent stake, a springboard into the international lottery ticket market, an area the company believes has considerable scope for growth. Page 23

Ruhrgas to buy American Meter
Ruhrgas, the West German utility, has agreed to buy American Meter, a manufacturer of gas metering and regulating equipment, for \$132m from Singer, the US industrial holding group. Page 22

Cookson tries to forge link with Wolstenholme Plank

No one denies that Wolstenholme Plank, a Lancashire-based lithographic materials and metal powders group founded in 1938 by an Austrian refugee, would fit well into the speciality chemicals division which has been assembled in recent years by Britain's Cookson Group. No one denies that Cookson could easily afford to buy its target. Cookson's only problem is that Wolstenholme is determined to remain independent. Claire Pearson considers a £27m (\$46m) takeover bid which commands attention far beyond its financial implications. Page 23

Market Statistics

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Farmers and lawyers keep BAT at bay

Nick Bunker considers the UK tobacco giant's American travails

IN THE history of the UK's BAT Industries, the world's largest private sector cigarette group, the place belongs to James Buchanan Duke. A tobacco baron from the Carolinas, he came to London in 1901 to attack the local market. He is said to have told his prey: "My name's Buck Duke, and I'm here to buy your company." A year later, he became the first chairman of British-American Tobacco.



Tied down by regulators: BAT chairman Mr Patrick Sheehy

It could take much longer for Mr Patrick Sheehy, his latest successor, to win control of Farmers Group, the Los Angeles-based insurer, as part of his ambition of building a US financial services empire. And - for the first time since BAT launched its first \$4.2bn offer for Farmers in January - the London investment community has to acknowledge the possibility that, in the end, BAT could be unable to struggle free of the regulatory quagmire in nine states where it needs approval if the bid is to succeed.

According to Mr Lawrence Friedman, the American legal historian, in the 19th century "no business was subject to as much regulation as insurance." Since then, more pieces have been added to the regulatory edifice, giving Farmers the scope, which it has exploited to the full, to bog BAT down with legal wrangling. The holding company laws, which govern insurance acquisitions, were passed after big takeovers in 1967-1969 prompted fears that predators would "asset-strip" insurers, endangering policyholders.

Wall Street - its arbitrageurs now well aware of how awkward these laws are - is showing its scepticism about the bid's hopes of success. Farmers shares closed on Friday at \$64, well below BAT's current \$88 offer. This week, BAT should get a ruling from a California Superior Court judge, who on Friday heard its appeal against the state insurance Commissioner's decision to deny approval for the bid. California yields about 41 per cent of Farmers Group's \$5.4bn property/casualty premiums. On Friday night, BAT was confident of winning, but, said one BAT official, "California is the slowest state to act. So far only Arizona has said yes to BAT. Idaho and Oregon have said no, and other states have yet to pronounce." Yet Texas provides the best indication of why the bid's timeframe could stretch into the spring of 1989.

used to buy the seventh largest US insurance company," he says. It is hard to gauge just how much steam he can generate, though, in California, political pressure may have been important. Anyway, Texas is not due to hold a full hearing on the bid until September 18.

Anticipating trouble, BAT has hired as an attorney Mr Will Davis, the state's Democratic Party chairman during the Lyndon Johnson era. Another lawyer for BAT, Mr David Irons, says Texas regulators "go over every formal filing with a fine-tooth comb." He admits it could be November 1 before the Texas insurance superintendent gives a ruling. Either party could then appeal to the chairman of the State Board of Insurance - with the prospect of further appeals in the courts. Mr Lyndon Olson, a former State Board chairman, has guessed that Farmers could ensnare BAT for four years in Texas. "The process is snail as hell," he says. Assuming the California judge rules in its favour, BAT could short-circuit this by raising its offer substantially, in the hope of eroding Farmers' resistance.

Has it the resources? London-based stockbroker Warburg Securities says if BAT completes the deal in 1988 at \$80 per share its net gearing would rise to 95 per cent - way above the 65 per cent it had in 1985 after buying

two UK insurers, Eagle Star and Allied Dunbar. High cash flow from BAT's tobacco, paper, retailing and insurance operations should reduce gearing rapidly. But even \$80 per share will represent only 17 times Farmers' 1988 earnings, and that multiple may be too modest. Connection-based broker Conning & Company reckons Farmers' return on equity averaged 18.1 per cent in 1974-85, 3.9 points better than the average for the Standard and Poor's 400. Oregon's ruling also raised the possibility that the more BAT increases the bid, the more regulators worry about how it will finance it, without jeopardising policyholders' security. The Oregon commissioner was bothered that at \$90 per share, purchase of Farmers might give BAT only a 6.5 per cent return on its investment, on present earnings projections.

Oregon, though, took an extreme view. Insurance officials elsewhere suspect that its reading of its holding company act was unconstitutionally broad. Until the California Superior Court delivers a ruling on BAT's appeal, some of these questions are academic. In the meantime, they illustrate something Britons with takeover ambitions learn painfully: that the US is, after all, a foreign country.

Until the California Superior Court delivers a ruling on BAT's appeal, some of these questions are academic. In the meantime, they illustrate something Britons with takeover ambitions learn painfully: that the US is, after all, a foreign country.

Inflation exam for an academic chairman

Anthony Harris in Washington



WHEN MR ALAN GREENSPAN took over from Mr Paul Volcker as Chairman of the Federal Reserve Board just under a year ago, there were some unkind jokes about small men filling large shoes. He was a Republican economist, but not apparently a member of the financial priesthood. The gigantic, enigmatic Mr Volcker had been unchallenged High Priest.

As everyone knows, Mr Greenspan established his own claims within two months, with his management of the October shock, which will go down in the handbooks of emergency drill. He has also become something rather rare - a popular Fed chairman on the most cordial terms with Congress and with his staff. In the next few weeks, though, he will be facing a new test. Can he convince the markets that he is resolute against inflation? That may take rather longer to prove, and he did not win much confidence with his frank admission in Congress last week that he found the latest inflation figures in the second quarter GNP statistics "surprising."

The figures illustrate a familiar fact: costs and prices within industry are rising faster than retail prices because pipelines take time to fill, and retail competition is fierce. It is the size of the apparent gap that is surprising. This is the kind of danger that Mr Greenspan was expected to see ahead of most people. He was hardly an unknown in the financial markets before he took office. As a consultant in New York he had earned wide respect for his judgment of the real economy. He had also learned the ways of the alarmingly isolated world of Washington as President Ford's chief economic adviser. However, these qualifications do not impress everyone. Dr Arthur Burns also came to the Fed in his time as a good economist who understood politics. Wall Street finds this a grim precedent. Dr Burns is widely blamed for putting politics ahead of central banking in 1972, with results that took years to correct. This is also an election year. The imputation is almost certainly unfair to Mr Greenspan - and to Dr Burns, too. The concerted boom of 1973 was a worldwide fiasco, in which nobody gave enough weight to the stimulus which was being imported from other countries. Policy is now co-ordinated sen-

sibly, instead of by seeing what will happen if we all jump at once. The heads of the main central banks talk to each other every day, and the minutes of the Federal Open Market Committee (FOMC) show that the inflationary threat has become the only important agenda, even if the actions which follow do not satisfy the Puritans in the bond houses. At least, though, they cannot complain that they are being kept in the dark.

Openness is one of the most striking changes Greenspan has introduced - indeed it is tempting to call it glasnost, and the internal re-organisation of the Fed as perestroika. In fact, though, it is a dramatic change of style rather than a counter-revolution. Congressmen have been delighted to hear courteous explanations which are meant to be understood - "No cigar smoke out there" one of them said during the chairman's first appearance on Capitol Hill. Junior staff feel really involved in policy. The markets seem to find this openness a little unsettling; they prefer unambiguous thunderbolts from Olympus. Everyone else enjoys it.

It is all a little like a successful university seminar, and that is revealing. This is an unusually academic Fed board: Governors Robert Heller, Wayne Angell and Martha Seger have all held teaching posts. Like their chairman, they love problems, pepper the Fed staff with research projects, and are keen to air their ideas and their perplexities in public speeches and papers. The chairman has asked other central banks to help with especially baffling problems, such as high bond yields in countries with low inflation.

This is only part of the story, though, and not the most important part. The Governors spend far more of their time on regulatory and prudential questions - bank mergers and rescues, capital adequacy, risk assessment and the like - than they do on monetary policy. Exchange rate management is a priority and a puzzle. Above all, the chairman knows that his job is about management. He quickly picked as his right hand man the board's most effective operator, the young and widely admired Mr Manley Johnson. That soon proved a crucial choice. In the first days of the new regime the board felt that the financial markets were get-

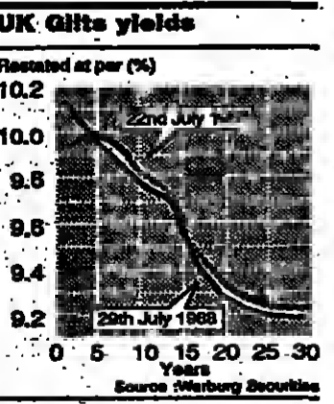
UK GILTS

Keeping an eye on the deficit

BRITAIN'S gilt-edged securities market starts the week with much to absorb and the prospect of little room for manoeuvre. The current account deficit is the short to medium term. If current account deficits do not matter to the UK Treasury and inflation is of little concern to the foreign exchange market, both still appear to matter to the gilt market.

Mr Nigel Lawson, Chancellor of the Exchequer, reiterated his recent themes in a letter to Conservative MPs late last week. The current account deficit was a private sector phenomenon and willingly financed; inflation would peak over the course of the next 12 months. The latter observation is consistent with the Treasury's summer forecast showing inflation rising to about 6 per cent in the first quarter of 1989 and falling thereafter.

Mr Lawson has a case in his claim that the current account deficit does not matter. As an indication of domestic demand leakage, it matters only if the pound depreciates, which would lead to inflation, or, if the authorities are forced to maintain a level of interest rates above what would be necessary for stable growth. At present, neither of those two conditions applies. If anything, the Government is in the position of having both factors working in the same, beneficial direction. Higher interest rates should lead, in turn, to a fall in consumer demand, and by virtue of their being much higher than competitive rates in comparable markets, they serve to support the currency. High rates do not have a major impact on business's investment intentions primarily because the current investment surge is capable of being funded internally. The Treasury believes that interest rates are powerful.



The current account moves towards equilibrium via lower domestic consumption and higher savings, together with a slowing in the rate of increase of investment, itself partly responsible for a high level of imports. It points out that UK exports have been and continue to be strong. This is, of course, the "soft-landing" scenario over which many in the market are decidedly agnostic. But so are, not even the most zealous proponents of the "hard-landing" school, disagreements with the view that the current account deficit can be financed. Where they part company with Mr Lawson is over the price at which it can be financed. On this point the Treasury reverts to faith, and others to wondering whether the foreign exchange market, a market not noted for the length of its attention span, can maintain its current level of interest in sterling indefinitely.

THE Bank of England should inform the market of the terms of the forthcoming gilts auction tomorrow afternoon and what-issued trading will commence shortly thereafter. The market has been told it will be a short-dated stock (seven years or less). The

expectation among market-makers is that the Bank will issue a six-year stock. Mr John Sheppard at Warburg Securities suggests two possible candidates if the Bank decides to issue a tranche of an existing stock: 8 1/2 per cent Treasury 1994s or the 9 per cent Treasury 1996s. The latter is free of tax to non-residents.

About the only encouraging thing to note about the funding outlook is the Bank's "welcome" return to the foreign exchange as a seller of sterling. Assuming a rise in reserves in July by a conservative \$1bn, the sterling counterpart that needs to be sterilised in the first four months of this financial year is of the order of \$1.25bn. This is also as good as the Bank from being overfunded. The numbers are these. Reserves plus cumulative redemptions of \$3.9bn equals \$5.15bn. The cumulative public sector debt repayment (PSDR) to July is \$2bn, assuming a repayment of \$400m in that month, and this gives gilts sales of \$3.15bn. The Bank has issued \$1.9bn so far leaving it as underfunded, because of intervention, by about \$1.25bn.

The situation, however, is clouded by the Bank's buying-in stock. It seems prepared to relieve market-makers, distressed or not, of any long position they have anywhere along the yield curve. This activity could account for as much as \$500m of stock. The forthcoming auction, expected to be about \$800m, should leave the funding position basically square. The prospect, however, of another auction, taken with the trend of the PSDR in the later months of the financial year, makes the prospect of a large over-fund as close to certain as it can be, buying in or not.

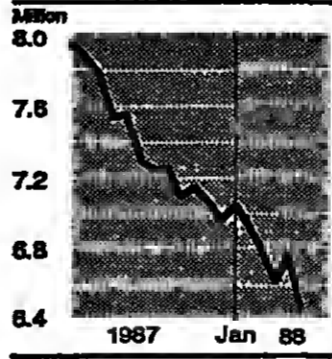
THIS WEEK

THE BUOYANCY of the US economy is likely to be the main focus of attention in financial markets this week, with a series of economic statistics expected to point to continuing strong growth. Figures for US unemployment and employment published on Friday are widely forecast to show labour demand remaining tight. They will be the first significant set of economic indicators of activity in July to be released, and could influence confidence in the dollar.

Employment is expected by analysts to show a strong rise, although less than in June. An unemployment rate of about 5.4 per cent is widely forecast - higher than in June but figures then were thought to be perhaps erratically low. On Tuesday, the index of leading indicators is also forecast to show robust growth. The indicators look forward three months and include factory output, money supply, consumer credit and prices. Oil prices may also be a focal point this week, with a possible meeting of the Organisation of Petroleum Exporting Countries' price committee in Lamsenne on Wednesday. If the price body decides to convene a full emergency meeting of oil ministers it would point to a new Opec consensus that could send prices rising. In the UK, Treasury figures for official reserves released on Tuesday will provide a rough guide to the extent of intervention by the Bank of England in foreign exchange markets.

The MMS International survey of analysts forecasts points to an increase of \$87bn in July against \$84bn in the previous month. In West Germany, there is a possibility of further rises in one of the closely-watched interest rates. Some analysts

US Unemployment



expect the securities repurchase (repo) rate for the next transactions with commercial banks to move up to at least 4.25 per cent on Tuesday, from the 4 per cent to which it has been raised in recent weeks. Japan's final money supply figures for June are due on Friday. The preliminary figure was 11.1 per cent, continuing a trend of double digit growth that has lasted for more than a year. The final figure is unlikely to show much variation, but it, along with last week's employment and price figures, will draw attention again to the dangers of inflation in the Japanese economy. Other statistics released this week include: Today, Japanese general account tax revenues. US construction expenditure in June. Tuesday, US factory output for June. UK Central Statistical Office figures for 1987 overseas earnings of the City of London. Wednesday, Japanese new car registrations. UK housing starts and completions in June. Employment Gazette published by UK Department of Employment. US car sales. Thursday, US productivity and costs for the three months from April to June.

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

US insider inquiries gain pace

By James Buchan in New York

THE WIDENING investigation into insider trading in stocks tipped by Business Week magazine claimed two more victims by the weekend when Prudential-Bache, the Wall Street investment firm, fired one young broker and Advest, a smaller brokerage, suspended a second.

The double announcement confirms that the inquiry has tracked the source of recent advance leaks of Business Week stock tips to R.R. Donnelley & Sons, the magazine's main printer.

The two brokers worked in offices close to Donnelley plants in Torrance, California, and Old Saybrook, Connecticut, which print Business Week.

Prudential-Bache said yesterday it had fired Mr Brian Callahan, 28, a broker at its Anaheim, California, office. The firm is also investigating a trading account held with the firm by a Donnelley employee.

The Advest broker, unidentified, worked in the firm's New London, Connecticut, office. On Wednesday, Merrill Lynch fired Mr William Dillon from its New London office.

US MONEY AND CREDIT

Greenspan soothes the inflation worriers

IT IS just under a year ago that Mr Alan Greenspan replaced Mr Paul Volcker as chairman of the Federal Reserve Board. But even before he reaches his anniversary as the second most important man in America, Mr Greenspan seems to have equalled his predecessor's Olympian stature and almost supernatural powers.

When Mr Greenspan declared on Thursday that he saw "fewer surprises than normal" in recent economic developments, the world's financial markets were overwhelmed by this intelligence. It obviously meant that there was no cause for anxiety in the economy's 3.1 per cent second-quarter growth rate - even if real final sales were rising at 5.4 per cent per annum or double the rate which Mr Greenspan had favoured two weeks earlier.

When he added that the one real surprise in the latest statistics - the 4.7 per cent increase in the GNP fixed-weight price index - was probably nothing more than a statistical aberration, his words seemed almost good enough to cut a point or so off everyone's inflation forecasts.

And when Mr Greenspan repeated his earlier assertions that a declining dollar could be counterproductive, the com-

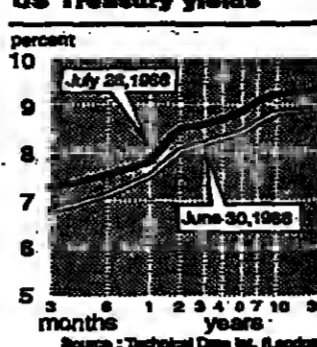
ment was good for a jump of four pennings against the D-Mark, taking the US currency within a hair's breadth of the DM190 level not seen since the summer of last year. Certainly Mr Greenspan's remarks about the dangers of devaluation were more than enough to undo all the hard work of the Bundesbank and even the Federal Reserve itself in battling the dollar bulls in foreign exchange markets throughout the world.

But even the currency market's faith in Mr Greenspan was nothing to the awe in which the US stock market seemed to hold him. The 75-point jump in the Dow Jones industrial average between Thursday lunchtime and Friday night was almost entirely attributable to the Fed chairman's efforts. A typical comment from one market strategist: "Greenspan's testimony put a large nail in the inflation coffin" and thereby restarted the summer rally.

In fact, the chairman's remarkably upbeat tone on Thursday, in contrast to his gloomy testimony on July 23, raised some questions about his objectives, as well as his hypnotic powers.

The one big surprise that had occurred between the two congressional appearances was the 68-point fall in the stock market's Dow Jones index last. This fall on Wall Street was matched almost hour by hour by the five pennings retreat of the dollar. While this

US Treasury yields



Source: Technical Data Int. (London)

slight weakening of the dollar might have been good news for the Bundesbank and other proponents of international currency management, the growing nervousness on Wall Street must have been less than satisfactory to the White House.

With less than four months to go before the presidential elections, this is no time to take risks with investor confidence - in the stock market, the bond market or anywhere else. In November last year, the Fed was targeting the Dow Jones industrial average. It may now be time to revive this idea. And if a strong dollar helps to support equity prices, so much the better.

For the world's largest international debtor, a currency with an upward short-term bias is naturally much easier to control than one which always seems to be teetering on the edge of collapse. Indeed, from the Reagan Administration's standpoint the present interplay of forces in the foreign exchange is like a dream come true. As long as speculators remain eager to buy dollars, there can be no threat of international monetary instability and the concomitant domestic financial chaos.

national debtor, a currency with an upward short-term bias is naturally much easier to control than one which always seems to be teetering on the edge of collapse. Indeed, from the Reagan Administration's standpoint the present interplay of forces in the foreign exchange is like a dream come true. As long as speculators remain eager to buy dollars, there can be no threat of international monetary instability and the concomitant domestic financial chaos.

Is it too Machiavellian to suggest, then, that the Fed and other central banks are actually helping to sustain the speculative pressures by intervening ineffectually to "restrain" the rising dollar? Without this kind of "smoothing" intervention the speculation might exhaust itself by December - that is, before November. By backing limited international intervention against the dollar at present, the US authorities can hope to sustain the rally till after the elections and the Fed can build up its foreign exchange reserves which it will need eventually to defend the dollar when the trend turns.

Even the Bundesbank, for all its protestations about inflationary dangers, cannot be too dissatisfied with the present currency situation. If it were, it would have acted far more aggressively to eliminate inflationary expectations by raising short-term interest rates. In fact, the bidding for the dollar gives the West German central bank a golden opportunity to unload its excessive US currency reserves, restraining German money supply growth and turning a tidy profit in the bargain.

The Bundesbank, like the Fed, must take such satisfaction in the knowledge that the more dollars it can unload on speculators today, the more it will be able to buy back later, when it ultimately needs to do this to protect the US currency from collapse.

Two weeks ago the Bank of Japan, too, seemed to be playing this cat and mouse game, allowing speculators to push the dollar as high as ¥185 on July 15. The sudden and alarming decline in the Tokyo stock market in the next two trading days must have convinced the Japanese that they were playing with fire. Since the 800-point fall in the Nikkei index on July 18 and 19, the yen has remained very stable between ¥181 and ¥182.5 to the dollar, regardless of the gyrations of currencies and interest rates in other parts of the world.

With all the world's policymakers desperate not to rock the financial boat before November, perhaps an international currency standard - the Dow-Nikkei-Bush standard.

Anatole Kaletsky Money Market Services forecasts were unavailable this week.

US MONEY MARKET RATES (%)

Table with 5 columns: Instrument, Last Friday, 1 week ago, 4 wks ago, 12-month low. Rows include Fed Funds (weekly average), Three-month Treasury Bills, Six-month Treasury Bills, Three-month prime CDs, 90-day Commercial Paper, 90-day Commercial Paper.

US BOND PRICES AND YIELDS (%)

Table with 5 columns: Instrument, Last Friday, Change vs. 1 week ago, Yield, 1 week ago, 4 wks ago. Rows include Seven-year Treasury, 10-year Treasury, 30-year Treasury, New 10-year Treasury, New 30-year Treasury, New 10-year Industrial, New 30-year Industrial.

NRI TOKYO BOND INDEX

Table with 5 columns: Instrument, August 1987, Last week, 12 wks ago, 26 wks ago. Rows include Overall, Government Bonds, Municipal Bonds, Corporate Bonds, Government 10-year, Government 30-year.

FT/AIBD INTERNATIONAL BOND SERVICE

Large table listing international bond services with columns for Instrument, Bid, Ask, Yield, and other financial metrics. Includes entries for various countries and currencies.

This announcement appears as a matter of record only. July 1988

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STRAIGHT BONDS: Yield to redemption of the bid-price. Amount raised is expressed in millions of currency on its except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. Coupon - current coupon. WARRANTS: Equity warrant premium = exercise premium over current share price. Bond warrant yield = exercise yield at current warrant price. Closing prices on AIBDD

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Crowther to provide material for banks

A \$70m DEAR to help finance last week's \$93.5m management buyout of the cloth and clothing interests of the John Crowther Group, the company purchased earlier this year by Coloroll, the UK home furnishings concern, should provide some material for syndicators this week as many banks start to wind down business for August.

The two-tranche transaction, which is being arranged by S.G. Warburg, is expected to be syndicated shortly. The \$50m first tranche takes the form of a seven-year term loan, while the second is a \$20m seven-year revolving credit. The margin is 2 per cent over London interbank offered rate with a commitment commission of 1/4 per cent.

Chemical Bank's \$560m financing for the management buyout at Reed International should be in general syndication this week following the closing of the buyout agreement last Thursday night. However, there are still a few wrinkles to be ironed out, according to one banker, amid suggestions from some that matters may not be going as smoothly as expected. Meanwhile, the jury remains out on the much bigger financing that may be needed should Goodman Hilder Wattle succeed in its bid for Rankin Hovis McDougall.

Sterling commercial paper programmes proved lively last week, with a \$200m deal for United Newspapers, arranged by Lloyds Bank Capital Markets group. The same team also announced a \$100m programme, with a Eurodollar commercial paper option, for Costain, the UK building group.

EUROMARKET TURNOVER (\$bn)

Category	1988	1987	1986	1985
Primary Market	1,386.4	1,413.0	1,363.0	1,229.3
Secondary Market	1,809.6	1,942.3	1,833.3	1,690.6
Total	3,196.0	3,355.3	3,196.3	2,919.9

Work to July 28, 1988. Source: AMB

INTERNATIONAL BONDS

Demand dips as Continental investors take a break

ASK ANY observant trader or syndicate manager - the weathermen may hold that we have just suffered the wettest July for 20 years, but summer has definitely arrived in the Eurobond market.

Secondary trading was subdued overall and dealers who had been hoping that Wednesday's set of US and UK economic data would set some kind of clearer short- to medium-term direction for the markets were disappointed. Following initial confusion, bond prices in practically every sector settled down to track foreign exchange movements.

But it was on the primary market side that the signs of the summer wind-down were most apparent. Even Credit Suisse First Boston could only manage a single, largely pre-marketed dollar deal and, if the major Japanese securities houses manage to stick to their

proposed moratorium on new equity warrant deals, next week looks like being even quieter - particularly ahead of US July employment data.

Nevertheless, it is still possible to bring a successful deal, provided the price and name are right or that the issue offers something out of the ordinary, as a few houses managed to prove last week.

UBS Securities and Merrill Lynch managed to locate sufficient European retail accounts to make a success of Sara Lee in US dollars and Eastman Kodak in Australian dollars.

Good demand was seen for the five-year Sara Lee issue, despite the dollar's seesaw antics on the foreign exchanges during the week, while the Kodak deal was slowed rather by the less than buoyant tone of the secondary Australian dollar market.

Bankers Trust International was not so lucky with its \$100m issue for Philip Morris Credit, which was not deemed fairly priced but was also affected by secondary market sentiment and slipped to trade outside its fees later.

que Paribas Capital Markets was the house which managed to beat several rivals to this mandate after the borrower held its customary tender.

Syndicate managers fear that GECC could be in danger of alienating many houses if it persists with this cost-cutting route to the market. Fights such as this one to lead new issues may be ideal for achieving a highly attractive cost of funds for the borrower, but inevitably result in a raw deal for the co-management group, with lead managers effectively subsidising the issue.

The deal's pricing - an initial 41 basis point spread over comparable Treasuries at launch - astounded many syndicate managers. "In this context, to say that it was ungenerous would be an overstatement. Given the current state of the market, at least 50 basis points would

have been the minimum we would have suggested for the borrower," said an official at a house which declined its invitation to join the group.

Two other deals which met a less than enthusiastic reception were in the Ecu sector which is still apparently groaning under the weight of new issuance. The sector remains very much at the mercy of swap rates and soon seems to reach bursting point. This was unfortunate for the week's two offerings which were otherwise fairly priced and well-managed. They included Ecu150m for LVMH Moët Hennessy Louis Vuitton via Deutsche Bank Capital Markets and Ecu75m for Mr Robert Maxwell's Maxwell Communications through Bayerische Vereinsbank.

A crop of sterling-denominated deals went down well, supported by the strength of the pound on the foreign

exchanges. TSB Group of the UK came to the market twice with two rather novel issues. In the first, via Salomon Brothers International, the group became the first Bank of England institution to tap the burgeoning sterling mortgage-backed securities market with a £135m floating-rate note through a special purpose company, Mortgage Express.

The issue is in line for a triple-A credit rating and is expected to boost the fledgling UK mortgage-backed market.

TSB also tapped another young market with the issue of £100m of subordinated variable rate notes through Merrill Lynch, which appears to have cornered the market in these issues - the first international debt offering by TSB and not through an issuing subsidiary.

Dominique Jackson

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Average life in years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Oakley Elec. Railway	150	1993	5	4 1/2	100	Yamaichi Int.(Eur)	4.250
Dai-ichi Inc.	200	1992	4	3 3/4	100	Nomura Int.	3.750
Seibu Credit	100	1992	4	3 3/4	100	Nomura Int.	3.750
Mitsubishi Metal	150	1993	5	4 1/4	100	Yamaichi Int.(Eur)	4.250
Toyo Suisan Kaisha	100	1993	5	4 1/2	100	Nikko Secs.(Eur)	4.250
Yokohama Warehouse	80	1992	4	3 3/4	100	Nomura Int.	3.750
Bando Chemical Ind.	50	1992	4	3 3/4	100	Nomura Int.	3.750
Mr. Max	40	1992	4	3 3/4	100	Nomura Int.	3.750
Sarwa Shutter	130	1993	5	4 1/2	100	Daiwa Europe	4.250
Castle Licoil	60	1992	4	3 3/4	100	Daiwa Europe	3.750
Shibbo Ltd.	80	1992	4	3 3/4	100	Nomura Int.	3.750
Kernigumi Co.	100	1992	4	3 3/4	100	Nomura Int.	3.750
Sara Lee Corp.	150	1993	5	9 1/2	101 1/2	UBS Secs.	9.989
Royal Trust Corp.	100	1991	3	9 1/2	101 1/2	UBS Secs.	8.583
Mitsubishi Estate	150	1993	5	9 1/2	101 1/2	Nikko Secs.(Eur)	8.933
Mitsubishi Tel. & Sig.	100	2003	15	3 3/4	100	Mitsubishi Trust Int	3.275
Matsuyama Ind.	70	1993	5	4 1/2	100	New Japan Secs.	-
Toho Railway Co.	200	1993	5	4 1/2	100	Yamaichi Int.(Eur)	-
Sumitomo Metal Mining	300	1992	4	4 1/2	100	Daiwa Europe	-
Philip Morris Credit	100	1993	5	9 1/2	101 1/2	Bankers Trust Int.	9.887
Gen. Electric Cap.Corp.	300	1995	7	9 1/2	101 1/2	Barings Paribas	9.200
Interference Credit Nat.	75	1993	5	9 1/2	101 1/2	Mitsubishi Finance	9.050
Saga Petroleum A/S	95	1993	5	10 1/2	100 3/4	CSFB	10.400
CANADIAN DOLLARS							
Bank of Montreal	120	1991	3	10 1/4	101 1/2	UBS Secs.	9.799
Austria	250	1991	3	10	101	J.P.Morgan Secs.	9.801
Avco Fin.Services	75	1993	5	11	101 1/2	Wood Gundy	10.865
Bpa.Paribas Luxembourg	65	1991	3	10 1/4	101 1/2	Banque Paribas	9.750
Thomson Brandt B.V.	75	1990	2	10	100 3/4	Shearson Lehman	9.570
AUSTRALIAN DOLLARS							
Eastman Kodak	180	1990	2	13	101 1/2	Merrill Lynch	12.185
Societe Generale	60	1991	3 1/2	13 1/2	101 1/2	Bankers Trust Int.	12.522
D-MARKS							
Bk Foreign Econ.Affairs	500	1995	7	6 1/2	100	Dresdner Bank	6.375
Helaba Luxembourg	75	1993	5	5 1/2	100 1/4	Heussche Landesbank	5.596
Suminoo Textile Co.	150	1993	5	1	100	West LB	1.000
SWISS FRANCS							
Atsugi Nylon Ind.	250	1993	-	1/2	100	SBC	0.500
Seibu Credit Co.	100	1993	-	1/2	100	Credit Suisse	0.500
Japan Bridge	30	1993	-	1/2	100	Credit Suisse	0.500
Nippon Paint Co.	150	1993	-	1/2	100	SBC	0.500
Matsui Bridge Co.	40	1993	-	1/2	100	SBC	0.500
Melent Industry	25	1993	-	1/2	100	B.della Sviz.Italien	0.500
Borrowers							
Amount m.	Maturity	Average life in years	Coupon %	Price	Book runner	Offer yield %	
US DOLLARS							
150	1993	5	4 1/2	100	Handelsbank NatWest	0.500	
200	1992	4	3 3/4	100	UBS	0.500	
100	1992	4	3 3/4	100	Warburg Soditic	4.875	
150	1993	5	4 1/4	100	Credit Suisse	-	
100	1993	5	4 1/2	100	SBC	-	
80	1992	4	3 3/4	100	SBC	-	
50	1992	4	3 3/4	100	Bank Julius Baer	-	
40	1992	4	3 3/4	100	Credit Suisse	-	
130	1993	5	4 1/2	100	Bank Leu	4.625	
60	1992	4	3 3/4	101	UBS	4.590	
80	1992	4	3 3/4	100	UBS	-	
100	1992	4	3 3/4	100	UBS	-	
150	1993	5	9 1/2	101 1/2	B.della Sviz.Ital.	4.625	
100	1992	4	3 3/4	101	Credit Suisse	-	
100	1992	4	3 3/4	100	Credit Suisse	-	
70	1993	5	4 1/2	100	Credit Suisse	-	
STERLING							
135	2015	5 1/2	30bp	100	Salomon Brothers	-	
100	1992	10	(0)	100	Barings Brothers	-	
80	2000	12	8 1/2	98 1/2	UBS	11.089	
100	2003	13	(0)	100	Merrill Lynch	-	
FRENCH FRANCS							
900	1991	3	9 1/2	101 1/2	Credit Lyonnais	8.063	
ECU							
100	1993	5	7 1/2	101 1/2	Merrill Lynch	7.257	
150	1993	5	7 1/2	101 1/2	Deutsche Bk.Cap.Mkts	7.828	
75	1993	5	9 1/2	100 1/2	Bayerische Vereinsbk	8.249	
YEN							
10bn	1998	10	5.40	100	Nomura Secs.	5.473	
15bn	1993	5 1/2	5 1/2	101 1/2	Nikko Sing.	4.832	
10bn	1993	5	5.2	100	Nomura Secs.	5.298	
10bn	1993	5	5.7	101 1/2	Sanwa Int.	6.264	
10bn	1992	4	6 1/2	101 1/2	B.T.J.Yasuda	8.302	
SPANISH PESETA							
10bn	1998	10	10 1/2	100	B.Santander Negocios	10.500	
LUXEMBOURG FRANCS							
500	1993	5	7 1/2	100 1/4	Bpa Luxembourg	7.438	

These securities have been sold outside the United States of America and Japan. This announcement appears as a matter of record only.

NEW ISSUE

29th July, 1988

G. Heileman Brewing Company, Inc.

an indirectly wholly owned subsidiary of

Bond Corporation Holdings Limited

has sold Amber Baking Inc., the successor to

Heileman Baking Company

to

R. T. Holding SA

The undersigned acted as financial advisor to G. Heileman Brewing Company, Inc.

Ocean Capital Corporation

New York • Los Angeles • Perth

June 29, 1988



Nichii Co., Ltd.

(Kabushiki Kaisha Nichii)

U.S.\$100,000,000

3 3/8 per cent. Bonds 1992

with

Warrants

to subscribe for shares of common stock of Nichii Co., Ltd.

Issue Price 100 per cent.

Nomura International Limited

Deutsche Bank Capital Markets Limited DKB International Limited
Union Bank of Switzerland (Securities) Limited Yamaichi International (Europe) Limited

Banque Bruxelles Lambert S.A. Banque Indosuez
Barclays de Zoete Wedd Limited Baring Brothers & Co., Limited
Chase Investment Bank Fuji International Finance Limited
IBJ International Limited Kleinwort Benson Limited
KOKUSAI Europe Limited Kuwait Foreign Trading Contracting & Investment Co. (S.A.K.)
Kuwait International Investment Co. s.a.k. LTCB International Limited
Merrill Lynch International & Co. Morgan Stanley International
New Japan Securities Europe Limited The Nikko Securities Co., (Europe) Ltd.
Nippon Kangyo Kakumaru (Europe) Limited Norinchukin International Limited
Sanwa International Limited Sanyo International Limited
Shearson Lehman Hutton International Sumitomo Trust International Limited

S.G. Warburg Securities

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

United Brands acquires Spanish citrus exporter

By Tom Burns in Madrid

UNITED BRANDS, the US food multinational, has acquired 15 per cent of Pascual Hermanos, Spain's biggest exporter of citrus products.

Maria Pascual, the company's founder, Pascual Hermanos has subsidiaries in a dozen European countries and made pre-tax profits of Pta1.2bn (\$9.75m) last year on sales of nearly Pta40bn.

The Valencia company declined to give a figure for the acquisition but said that 12 per cent of the equity had been bought from Cofir, the Spanish investment of arm of Cerus, Mr Carlo De Benedetti's European holding company, which last April purchased a 21.5 stake in Pascual Hermanos.

United Brands into the group, Pascual Hermanos now plans a stock market listing next month, but it is understood that the family will retain a majority of the shares.

Hermanos said United Brands products, in particular bananas, pineapples and grapefruits, complemented the essentially orange-based production of Pascual Hermanos. The link with the multinational would help the Spanish company to grow in North America and in the Middle and Far East.

Singer sells American Meter unit to Ruhrgas

By Anatole Kaletsky in New York

SINGER, the US electronics and defence conglomerate controlled by Mr Paul Bilzerian, the Florida corporate raider, has agreed to sell its American Meter division for \$132m to Ruhrgas of West Germany.

The sale brings to about \$1.7bn the total proceeds of various divestments undertaken by Mr Bilzerian since he acquired Singer in January this year.

Mr Bilzerian obtained control of the Connecticut-based Singer, which was at one time the world's leading manufacturer of sewing machines, but diversified successfully into electronics, after a lengthy and acrimonious takeover battle which was interrupted by last October's stock market crash.

When Mr Bilzerian revived his bid for the company last autumn, there was widespread scepticism about his ability to finance a takeover.

When Singer finally agreed in January to be bought for \$1.06bn, Wall Street also wondered whether the corporate raider had overpaid once other costs had been taken into account.

In the past six months, however, Mr Bilzerian seems to have had no difficulty in persuading buyers, several of them foreign, to pay larger than expected sums for Singer's peripheral operations.

As a result, he has now obtained control of the company's core defence electronics business for little or no outlay.

It appears in retrospect that Mr Bilzerian was right in his view about the stock market's inability to put a correct valuation on Singer's many small subsidiaries, several of which, like American Meter, were operating in relatively obscure and unglamorous industries.

American Meter supplies residential gas meters to utility companies. It is based in Philadelphia and has several facilities in North America and Europe. Its annual sales and profits were not disclosed. Ruhrgas, the leading German distributor of natural gas, is owned by a number of the country's energy companies.

Canadian forest groups well ahead

By Robert Gibbens in Montreal

BIG CANADIAN forest products companies have reported sharply higher profits for the first half.

British Columbia Forest Products, controlled by Fletcher Challenge of New Zealand, earned C\$94.3m (US\$78m) net or C\$1.68 a share in the half-year to June, up from C\$85.3m or C\$1.15 a year earlier on sales of C\$749m against C\$680m.

Second quarter profit was C\$48.9m or 85 cents a share against C\$32.4m or 57 cents on sales of C\$393m against C\$344m.

Noranda Forest, which is now Canada's largest forest products group and includes MacMillan Bloedel, had first-half net profit of C\$134m or C\$1.29 a share, up from C\$98m or C\$1.12 a year earlier on revenues of C\$1.23bn against C\$1.08bn. The company said demand and prices for all products except lumber were strong and offset the impact of the higher Canadian dollar.

Pamtar, which has interests

in paper, packaging, building products and chemicals, was the exception. Hampered by a strike, it had second quarter net earnings of C\$24m against C\$44m (25 cents a share from 47 cents) as revenues dipped to C\$646m from C\$657m.

BOW VALLEY Industries, the Canadian oil and gas group in which British Gas earlier this year bought 51 per cent control, dipped slightly into the red as a consequent restructuring took effect in its latest quarter to June. Our Financial Staff writes.

The net loss of C\$500,000 (US\$413m) or 7 cents per share

The six-month result was C\$61m compared with C\$82m (64 cents against 95 cents). Sales were up at C\$1.22bn from C\$1.26bn.

A strong performance in forest products and energy brought good results for Consolidated-Bathurst (CB), offsetting lower earnings from packaging.

Interest income was higher and earnings also benefited from a lower tax rate and larger contributions from MacMillan-Bathurst, a joint packaging venture, and the Celgar pulp mill in British Columbia jointly owned with the Chiront.

compares with C\$18.9m profits (38 cents a share) for the same period of 1987. Revenues rose to C\$70.1m from C\$65.7m.

Over the first half, net profits were cut to C\$6.5m from C\$9.5m on a per-share basis. This was break-even compared with 51 cents earnings. Sales were C\$129.6m.

CB's second quarter net earnings were C\$9.5m or 57 cents a share, up from C\$9.3m or 58 cents a year earlier on sales of C\$609m against C\$573m. First half earnings were C\$113m or C\$1.05 a share, up from C\$76.2m or 67 cents on sales of C\$1.19bn against C\$1.1bn.

CB Pak, its main packaging subsidiary, had first-half earnings of C\$14m or 68 cents a share against C\$13m or 55 cents on sales of C\$245m against C\$252m.

Power Corporation, which owns 40 per cent of CB, lifted profit to C\$104.4m or 78 cents a share from C\$90.7m or 68 cents, on revenues of C\$111m against C\$97m. The company embraces the financial services, communications and industrial interests of Mr Paul Desmarais, the Montreal financier.

Power Financial, the 60 per cent owned financial services subsidiary, had first-half profit of C\$70m or 87 cents a share against C\$61m or 90 cents a year earlier. Second-quarter net was equal to 44 cents against 43 cents.

The first-half decline was due mainly to the Investors Group subsidiary, Canada's largest mutual funds group, where sales were affected by the post-October crash atmosphere.

Santander in Italian bank deal

By Our Financial Staff

BANCO SANTANDER, Spain's fourth largest bank, has concluded a deal to acquire a 30 per cent stake in an Italian bank owned by Cassa di Risparmio delle Provincie Lombarde (Cariplo), Italy's biggest savings bank.

Santander will gain a significant foothold in Istituto Bancario Italiano (IBI), Italy's 12th biggest commercial bank. The bank, which has 69 branches, is wholly owned by Cariplo. Under the agreement - con-

cluded after more than a year of negotiations which last month ran into further snags - Cariplo will in return receive up to 30 per cent of Banca Jover, a retail bank in Spain's booming north-east region of Catalonia, a joint statement said.

In addition, Cariplo will receive a stake of about 1 per cent in Banco Santander and an unspecified cash consideration, Santander added. Santander, which recently

sold off subsidiaries in four Latin American countries, last year acquired a small West German bank, Bankhaus Centrale Credit. Santander has also said it plans to buy Credit du Nord Belge, the Belgian banking subsidiary of France's Credit du Nord, in a cash transaction.

Talks between Santander and Cariplo came close to collapse last May when the Cariplo board vetoed an earlier proposed share swap agreement.

Westpac keeps clear of BNZ

By Bruce Jacques in Sydney

WESTPAC, one of Australia's leading banks, has ruled itself out as a bidder for Bank of New Zealand (BNZ), which the Wellington Government is seeking to privatise.

Mr Stuart Fowler, Westpac managing director, told a Securities Institute of Australia meeting in Sydney that Westpac already accounted for 22 per cent of New Zealand's

retail banking market and it would be unreasonable to expect also to control the 88 per cent held by BNZ.

Mr Fowler's comments followed the announcement in the New Zealand budget last week that BNZ and a number of other government-held assets would be privatised. He acknowledged that if Westpac wished to maintain its position

in the world's top 100 banks, both acquisitions and capital raisings would be needed.

Mr Fowler dismissed concern that Westpac might struggle to meet new central bank capital adequacy requirements, pointing out that the bank's recent A\$750m (US\$608m) share issue and A\$900m property portfolio revaluation had bolstered the asset side of its balance sheet.

Purchases help sales rise at Everite

By Jim Jones in Johannesburg

ACQUISITIONS AND restructuring have contributed to an 11 per cent increase in annual sales by Everite, the South African fibre cement company controlled by the Swiss Eternit group.

Last year the concrete division was sold, the plastic pipes division was merged with a competitor and the building products interests of former competitor Turner & Newall were consolidated for the full

year. Turnover increased to R224m (\$133m) in the year to June from R222m but the directors say the figures are not strictly comparable.

Swissair first-half profits boosted by heavier traffic

By John Wicks in Zurich

SWISSAIR reports "gratifying" results for the first six months, following the continuation of an upturn in traffic which began in the final quarter of 1987.

Preliminary operating accounts show a 5.6 per cent rise in total revenues in comparison with the corresponding period of last year to just under SF2bn (\$1.28bn). Gross profits for the period increased sharply from SF1.03m to SF1.61m.

With depreciation up by only SF12m to SF135m, the airline posted its first net profit for the January-June period since 1985.

Swissair expects a "satisfactory" result for 1988 as a

whole. Last year net earnings improved by 11.8 per cent to a record SF771m, enabling dividends to be raised from SF33 to SF36 per share and from SF76.80 to SF77.20 per participation certificate.

At the same time, shareholders have been informed that Swissair is "giving consideration to raising its share capital." This is explained by the airline's recent equity participations in Crossair and Austrian Airlines, and the Galileo and Covia reservation systems.

US federal authorities on Friday approved the sale by UAL parent of United Airlines, of half its Apollo system to Covia, a European-controlled consortium, for some \$500m.

Saga Petroleum raises Eurobond issue to \$95m

By Karen Fosell in Oslo

SAGA PETROLEUM, the Norwegian oil independent, plans to use its latest Eurobond issue to help fund investments in offshore oil and gas developments.

The five-year issue was increased to \$95m, at 10 1/2 per cent and 100%, from \$75m because of good demand, lead manager Credit Suisse First Boston said.

Mr Per Fjærrestad, a senior executive with Saga, said the company's long-term financing strategy was to tap capital markets further.

The new issue, however, does not pre-empt earlier plans announced in June to launch a convertible Eurobond of between \$100m and \$150m

when market conditions become favourable.

Terms of the convertible issue have yet to be finalised but Saga said the conversion premium would be a minimum 20 per cent above the market price of the company's shares.

Saga has until September 1 to launch the issue after which it will have to seek a new mandate to extend the deadline.

Saga is gearing up for development of its NKR30bn Snorre oil and gas field off the west coast of central Norway. The field is one of the largest known untapped resources on Norway's continental shelf and Saga plans to bring it into production by 1992.

Acquisitions lift Wella

By Our Financial Staff

WELLA, the West German hair care and cosmetics group, lifted group pre-tax profits 8.1 per cent to DM17.8m (\$8.2m) in the first half to June as sales, buoyed by acquisitions,

grew 12.4 per cent to DM1.01bn.

For the Wella parent company alone, pre-tax profit was given as DM22.1m against DM20.4m.


Kyowa Hakko up 26.9%

By Ian Rodger in Tokyo

PRE-TAX PROFITS of Kyowa Hakko, the Japanese pharmaceutical, chemical and drinks group, rose 26.9 per cent to ¥11.3bn (\$96m) in the first half, thanks to brisk drug sales.

Net profits rose 12.5 per cent to ¥4.5bn, but the interim dividend was held at ¥8 per share. Kyowa Hakko expects its pre-tax profit to reach ¥12bn in the full year, up 23.3 per cent.

This announcement appears as a matter of record only.



Fletcher Challenge Limited


has invested in 50% of the share capital of

PISA—Papal de Imprensa S.A.

The following institutions advised and assisted Fletcher Challenge in a variety of Brazilian debt/equity conversion transactions totalling

U.S. \$50,830,000

Morgan Grenfell & Co. Limited



BANCO BOZANO, SIMONSEN DE INVESTIMENTO S.A.

July 1988

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New Issue / July, 1988

Can. \$125,000,000

General Motors Corporation

10 1/4% Notes Due July 19, 1995

Salomon Brothers International Limited

J. P. Morgan Securities Ltd. Morgan Stanley International

Shearson Lehman Hutton International

Banque Bruxelles Lambert S.A. BNP Capital Markets Limited

Commerzbank Aktiengesellschaft Daiwa Europe Limited

RBC Dominion Securities Inc. Generale Bank

Mitsui Finance International Limited Nomura International Limited

Smith Barney, Harris Upham & Co. Incorporated Societe Generale

UK COMPANY NEWS

De La Rue paying £3.9m for Dutch ticket printer

By Ray Beahford

DE LA RUE, the security printing and printing technology group in which Mr Robert Maxwell and business associates have a 14.9 per cent holding, has purchased ILS Systems, a Dutch specialist lottery ticket printer group.

countries, including Britain, are considering the establishment of national lottery systems. Mr White said that ILS would give De La Rue a sound launching pad from which to expand if legislation was passed to allow the creation of more national lotteries.

which last year totalled £2.5m. The company returned pre-tax earnings of £800,000. Mr White said that ILS's technology could be transferred to Britain and other European countries if the use of lotteries increases.

Runciman forecasts 29% rise to near £4m

By Clay Harris

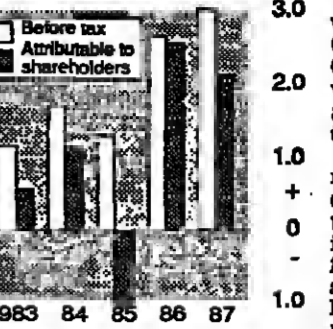
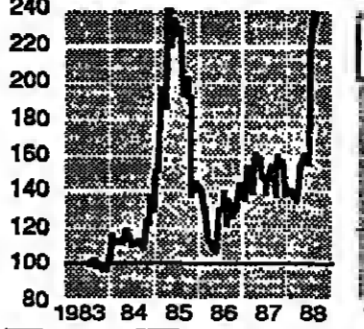
WALTER RUNCIMAN, the shipping and safes group residing a £31.8m takeover bid from Telfos Holdings, is forecasting pre-tax profits of £3.8m for this year, a 29 per cent advance over the 1987 result.

Right price could sway loyalists

Clare Pearson on the bid defence from Wolstenholme Rink

THE £27m bid for Lancashire-based lithographic materials and metal powders group Wolstenholme Rink is right in line with many other deals carried out by Cookson Group, the specialist metals and chemicals manufacturer which in recent years has turned the small, add-on acquisition, into an art form.

Wolstenholme Rink



As Mr Stuart Wamsley, chemicals analyst at Morgan Stanley says: "Wolstenholme is right up Cookson's street: it would be another piece in the jigsaw of specialist materials interests it has assembled."

broader range of products than Harsell, which mainly concentrates on offset plates. Mr Rink also takes issue with Cookson's claim that Openshaw could benefit from Cookson's international network, saying it already exports about 40 per cent of its production.

Merrydown advances 16%

Merrydown Wine, East Sussex-based cider producer, saw taxable profits for the year ended March increase by 16 per cent from £1.27m to £1.48m. Turnover improved by £1.26m to £11.96m.

Wace profits doubled to £3m at halfway

WACE GROUP, pre-press services concern, reported pre-tax profits more than doubled, on a merger accounting basis, from £1.41m to £3.01m for the six months to the end of June.

Zurich agreed bid for Ecobric

ZURICH, a private property development group, has announced a recommended bid for Ecobric, the loss-making demolition company, together with a 54m placing and a move to the USM.

AMS Inds falls sharply in first half

Taxable profits of AMS Industries fell sharply from £247,000 to £263,000 in the six months ended May 31 1988, but this maker of microprocessor based systems is paying an unchanged interim dividend of 0.6p.

Zurich agreed bid for Ecobric

ZURICH, a private property development group, has announced a recommended bid for Ecobric, the loss-making demolition company, together with a 54m placing and a move to the USM.

been sought since the prospects for Ecobric as an independent company were not encouraging. There would only be limited slow progress without major refinancing.

AMS Inds falls sharply in first half. Taxable profits of AMS Industries fell sharply from £247,000 to £263,000 in the six months ended May 31 1988.

Bristol Water issue terms could interest French

By Andrew Hill

LOCAL CONSUMERS and employees will be given priority in the application for £2m of new convertible preference stock to be issued by Bristol Waterworks Company.

interested in further expansion in the UK. The £2m of convertible redeemable preference stock to be issued will not carry votes, but when converted into ordinary stock - which does carry voting rights - could have the effect of slightly diluting the French holdings in the company.

Advertisement for The Mitsubishi Trust and Banking Corporation. U.S. \$100,000,000 2 1/2% Convertible Bonds due 2001 and U.S. \$100,000,000 1 1/4% Convertible Bonds due 2002. NOTICE OF OFFERING OF SHARES TO SHAREHOLDERS AND ADJUSTMENT OF CONVERSION PRICE.

Advertisement for TVS ENTERTAINMENT PLC. Proposed acquisition of MTM Entertainment, Inc. Open offer by COUNTY NATWEST LIMITED. of 49,943,818 convertible preference shares at 100p per share and the proposed issue of 21,233,174 new ordinary shares.

Optical and Medical International raised pre-tax profits by 30 per cent from £3.2m to £4.2m in the year to March 31 1988. Turnover increased to £40.68m, against £32.06m.

Shield expands 28% to £1.6m

The Shield Group, the USM-quoted property developer and estate agent, has reported pre-tax profits of £1.6m for the year to March 31.

Advertisement for Derek Bryant Group p.l.c. (to be renamed D.G. Durham Group plc) following the reorganisation of Derek Bryant Group p.l.c., Acquisition of NCV Group Holdings Limited, Rights Issue of 6,386,950 new Ordinary Shares of 10p each at 50p per share.

Cardiff Property profit trebled. Cardiff Property was £108,628 (£87,075) for half year to March 31 1988 and pre-tax profits £48,469 (£16,402). Earnings were 1.34p (0.55p) and interim dividend 0.85p (0.6p).

FT Share Information Service. The following securities were added to the Share Information Service in Saturday's edition: Anglesey Mining (Section: Miscellaneous); Bear Brand (Ord. & Warrants) (Industrial).

Advertisement for serif cowells plc. Open Offer by Lloyds Merchant Bank Limited and Albert E. Sharp & Co. of 2,500,000 Ordinary Shares of 25p each at 160p per share.

Table with columns: BOARD MEETINGS, FUTURE DATES, PENDING DIVIDENDS. Lists various companies and their financial dates.

Table titled FINANCIAL TIMES STOCK INDICES. Columns: Index Name, July 29, July 28, July 27, July 26, July 25, July 24, High, Low, Since Completion.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Abbey Unit Trust, Abnott Unit Trust, and others, with columns for name, type, and other details.

Table listing unit trusts including Anderson Unit Trust, Arden Unit Trust, and others, with columns for name, type, and other details.

Table listing unit trusts including Balfour Beatty Unit Trust, Bank of Ireland Unit Trust, and others, with columns for name, type, and other details.

Table listing unit trusts including British American Unit Trust, British Columbia Unit Trust, and others, with columns for name, type, and other details.

Table listing unit trusts including British Overseas Unit Trust, British World Unit Trust, and others, with columns for name, type, and other details.

Table listing unit trusts including British World Unit Trust, British World Unit Trust, and others, with columns for name, type, and other details.

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Table listing unit trusts including British World Unit Trust, British World Unit Trust, and others, with columns for name, type, and other details.

I.G. INDEX LTD, 9-11 GROSVENOR GARDENS, LONDON SW1W 0BD. Tel: 01-822 7233/5699. Reuters Code: IGIN, IGI0.

JOTTER PAD: A grid for writing notes, with columns for date and time.

CROSSWORD

Crossword puzzle grid with clues for 'ACROSS' and 'DOWN'.

ACROSS: 1 Put obstacle in the way, bringing work to standstill (6). 4 Drink yerba without the trimmings! It's great (6). 8 Discover urn in Petasmo, Vazana etc. (7). 9 Air traffic controller lands squadron leader. He's in (7). 11 What seems like a return to slavery is intentional (10). 12 Roll to one side! (4). 13 It's dismal being dead before the end (5). 14 As early American was kind of cool and laid back (8). 16 One who's critical? The Spectator? (8). 18 Dip right in what's imbibed (5). 20 Yarn, long gone, had the tang of the sea about it (4). 21 See, in slightly changed ructions, a firm move (10). 23 With it chick indulges in arty display (7). 24 Thug who's a heavyweight - or worse one hears (7). 25 A gee that's favourite for the plate (6).

Table listing unit trusts including City Financial Services Unit Trust, City Financial Services Unit Trust, and others, with columns for name, type, and other details.

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GUIDE TO UNIT TRUST PRICING: Information regarding the pricing of unit trusts, including details on the FT Unit Trust Information Service and the FT Unit Trust Pricing Guide.

FT UNIT TRUST INFORMATION SERVICE

Handwritten note: 10/10/10

INSURANCES

Main table containing unit trust information for various insurance companies, including names, codes, and prices. Includes sub-sections like 'OTHER UK UNIT TRUSTS' and 'Legal & General (UK) Assur. Ltd'.

OTHER UK UNIT TRUSTS

Table listing other UK unit trusts such as British & Foreign, Charities Official, and Edinburgh Fund Managers PLC.

Legal & General (UK) Assur. Ltd

Table listing unit trusts under Legal & General (UK) Assur. Ltd, including various fund names and their prices.

FT UNIT TRUST INFORMATION SERVICE

Table of FT Unit Trust Information Service listing various unit trusts, their managers, and performance metrics.

LONDON SHARE SERVICE

Table of London Share Service listing various British Funds, Foreign Bonds & Rails, and American stocks.

OTHER OFFSHORE FUNDS

Table of Other Offshore Funds listing various offshore investment vehicles.

Money Market Trust Funds

Table of Money Market Trust Funds listing various short-term investment funds.

Money Market Bank Accounts

Table of Money Market Bank Accounts listing various high-interest bank accounts.

LONDON SHARE SERVICE

AMERICANS - Contd

Table listing American stocks with columns for Stock, Price, Div, and Dividend Yield.

CANADIANS

Table listing Canadian stocks with columns for Stock, Price, Div, and Dividend Yield.

BANKS, HP & LEASING

Table listing bank and leasing stocks with columns for Stock, Price, Div, and Dividend Yield.

BUILDING, TIMBER, ROADS

Table listing building, timber, and roads stocks with columns for Stock, Price, Div, and Dividend Yield.

CHEMICALS, PLASTICS

Table listing chemicals and plastics stocks with columns for Stock, Price, Div, and Dividend Yield.

DRAPERY AND STORES

Table listing drapery and stores stocks with columns for Stock, Price, Div, and Dividend Yield.

BEERS, WINES & SPIRITS

Table listing beer, wine, and spirit stocks with columns for Stock, Price, Div, and Dividend Yield.

BUILDING, TIMBER, ROADS

Table listing building, timber, and roads stocks with columns for Stock, Price, Div, and Dividend Yield.

ELECTRICALS

Table listing electrical stocks with columns for Stock, Price, Div, and Dividend Yield.

ENGINEERING - Contd

Table listing engineering stocks with columns for Stock, Price, Div, and Dividend Yield.

ENGINEERING

Table listing engineering stocks with columns for Stock, Price, Div, and Dividend Yield.

ENGINEERING - Contd

Table listing engineering stocks with columns for Stock, Price, Div, and Dividend Yield.

FOOD, GROCERIES, ETC

Table listing food, grocery, and other stocks with columns for Stock, Price, Div, and Dividend Yield.

HOTELS AND CATERERS

Table listing hotel and catering stocks with columns for Stock, Price, Div, and Dividend Yield.

INDUSTRIALS (Miscel.)

Table listing industrial stocks with columns for Stock, Price, Div, and Dividend Yield.

INDUSTRIALS (Miscel.) - Contd

Table listing industrial stocks with columns for Stock, Price, Div, and Dividend Yield.

INDUSTRIALS (Miscel.) - Contd

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INDUSTRIALS (Miscel.)

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INSURANCES

Table listing insurance stocks with columns for Stock, Price, Div, and Dividend Yield.

INDUSTRIALS (Miscel.) - Contd

Table listing industrial stocks with columns for Stock, Price, Div, and Dividend Yield.

INDUSTRIALS (Miscel.) - Contd

Table listing industrial stocks with columns for Stock, Price, Div, and Dividend Yield.

LEISURE

Table listing leisure stocks with columns for Stock, Price, Div, and Dividend Yield.

LEISURE

Table listing leisure stocks with columns for Stock, Price, Div, and Dividend Yield.

LONDON SHARE SERVICE

LEISURE - Contd. Table listing various leisure-related stocks and their prices.

PAPER, PRINTING, ADVERTISING - Contd. Table listing stocks in the paper, printing, and advertising sectors.

PROPERTY. Table listing real estate and property-related stocks.

TEXTILES - Contd. Table listing textile industry stocks.

TOBACCO. Table listing tobacco industry stocks.

TRUSTS, FINANCE, LAND. Table listing trusts, finance, and land-related stocks.

TRUSTS, FINANCE, LAND - Contd. Table continuing the list of trusts, finance, and land-related stocks.

OIL AND GAS - Contd. Table listing oil and gas industry stocks.

OVERSEAS TRADERS. Table listing overseas trading companies.

PLANTATIONS. Table listing plantation-related stocks.

Rubbers, Palm Oil. Table listing rubber and palm oil stocks.

MINES - Contd. Table listing mining industry stocks.

MISCELLANEOUS. Table listing various miscellaneous stocks.

THIRD MARKET. Table listing third market trading data.

MOTORS, AIRCRAFT TRADES. Table listing motor and aircraft trade stocks.

Commercial Vehicles. Table listing commercial vehicle stocks.

Garages and Distributors. Table listing garage and distributor stocks.

NEWSPAPERS, PUBLISHERS. Table listing newspaper and publisher stocks.

PAPER, PRINTING, ADVERTISING. Table listing paper, printing, and advertising stocks.

SHIPPING. Table listing shipping industry stocks.

SHOES AND LEATHER. Table listing shoes and leather goods stocks.

SOUTH AFRICANS. Table listing South African stocks.

TEXTILES. Table listing textile stocks.

Investment Trusts. Table listing investment trusts.

Finance, Land, etc. Table listing finance, land, and other stocks.

Oil and Gas. Table listing oil and gas stocks.

Diamonds and Platinum. Table listing diamond and platinum stocks.

Central Africa. Table listing central African stocks.

Finance. Table listing finance stocks.

Far West. Table listing far west stocks.

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NOTES. A section containing various notices and information regarding the share service.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling may be living on borrowed time

By Jonas Croeland

THE STRONG performance of sterling in foreign exchange markets now begs the question: how long will it last? This will be in the minds of many when trading opens in London this morning.

D-Mark at a two-year low against sterling and near a one-year low in dollar terms. Despite last week's rise in the West German Lombard rate.

Investors see every reason for feeling confident about securing a good return on sterling investments, at least in the short term.

Thought suggests that high levels of sterling will not be achieved. Their argument is that the economic fundamentals, principally the deteriorating current account deficit, will ultimately cause a downward correction in sterling's value.

The dollar, meanwhile, has enjoyed a return to favour, rising nearly three per cent against the D-Mark and one and a half per cent in yen terms in just one week.

While the US economy continues to grow in a relatively satisfactory fashion - led by strong export growth - the authorities are only too aware that inflation in the second quarter of the year has risen by an annualised rate of 4.7 p.c., a point not lost on Mr Greenspan.

£ IN NEW YORK

Table with columns: Date, Open, High, Low, Close, Forward Premium and Discount apply to the US dollar.

STERLING INDEX

Table with columns: Date, Index, Change, Previous.

CURRENCY RATES

Table with columns: Currency, Rate, % Change, Bid, Offer.

CURRENCY MOVEMENTS

Table with columns: Currency, Movement, % Change.

OTHER CURRENCIES

Table with columns: Currency, Rate, % Change.

FORWARD RATES AGAINST STERLING

Table with columns: Currency, Term, Rate, % Change.

MONEY MARKETS

UK rates look set to remain firm

THE UK Treasury will be hoping for a quieter time when money markets open this morning. With the exception of official reserves for July, due out tomorrow - there are no statistical data this week to lead the market.

time for Mr Nigel Lawson, UK Chancellor of the Exchequer. Foreign investors seem keen to buy sterling, on the premise that interest rates are set to rise, or at least remain stable.

caught the market on the wrong foot too many times in the past for sterling to be regarded as a one way bet. That said, it is becoming increasingly more difficult to contain any downward move in base rates from the current 10.5 p.c.

months, well above the official 1-5 p.c. target range. The authorities will be hoping that the rise in interest rates since June will start to feed through to the economy.

FT LONDON INTERBANK FIXING

Table with columns: Bid, Offer, 3 months US dollars, 6 months US dollars.

BANK OF ENGLAND TREASURY BILL TENDER

Table with columns: Bill on offer, Total of applications, Total allocated, Minimum accepted bid, Allocation at minimum level.

WEEKLY CHANGE IN WORLD INTEREST RATES

Table with columns: Location, Rate, Change.

MONEY RATES

Table with columns: Location, Term, Rate, % Change.

LONDON MONEY RATES

Table with columns: Term, Rate, % Change.

NATIONAL AND REGIONAL MARKETS

Table with columns: Market, Index, Change.

BASE LENDING RATES

Table with columns: Bank, Rate, % Change.

FT-ACTUARIES WORLD INDICES

Table with columns: Index, Value, Change.

LONDON RECENT ISSUES

Table with columns: Issue, Price, Yield, % Change.

FIXED INTEREST STOCKS

Table with columns: Issue, Price, Yield, % Change.

RIGHTS OFFERS

Table with columns: Issue, Price, Yield, % Change.

EUROPEAN OPTIONS EXCHANGE

Table with columns: Option, Price, Yield, % Change.

BASE LENDING RATES

Table with columns: Bank, Rate, % Change.

FT-ACTUARIES WORLD INDICES

Table with columns: Index, Value, Change.

WORLD STOCK MARKETS

Table with columns for country (AUSTRALIA, FRANCE, ITALY, SWEDEN), date (July 29), and price. Lists various stock indices and individual shares.

Table with columns for country (GERMANY, FINLAND, JAPAN), date (July 29), and price. Lists various stock indices and individual shares.

CANADA

Table with columns for stock name, high, low, close, and change. Includes Toronto and Montreal market data.

Table with columns for country (AUSTRALIA, FRANCE, ITALY, SWEDEN), date (July 29), and price. Continuation of world stock markets data.

Table with columns for country (GERMANY, FINLAND, JAPAN), date (July 29), and price. Continuation of world stock markets data.

Table with columns for index name, date, and value. Includes DOW JONES, NYSE, and other indices.

Table with columns for stock name, date, and price. Lists active stocks in the New York market.

OVER-THE-COUNTER

Table with columns for stock name, date, and price. Lists over-the-counter trading data.

Advertisement for 'Have your F.T. hand delivered in Belgium' by Financial Times. Includes contact information and a list of 12 issues free.

NYSE COMPOSITE PRICES

Table of NYSE Composite Prices listing various stocks with columns for High, Low, and Change. Includes a 'Continued from previous page' note.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices listing various stocks with columns for High, Low, and Change. Includes a 'Closing prices July 29' note.

OVER-THE-COUNTER

Table of Over-the-Counter prices listing various stocks with columns for High, Low, and Change. Includes a 'Nasdaq national market, Closing prices July 29' note.

Advertisement for Financial Times: 'Have your F.T. hand delivered every morning in Switzerland. If you work in the business centre of BAAR, BASEL, BERNE, GENEVA, LAUSANNE, LUGANO, LUZERN, ST GALLEN, ZUG, ZURICH or WINTER-THUR...'

Advertisement for Financial Times: 'Have your F.T. hand delivered in France. If you work in the business centres of ANTIBES, BORDEAUX, CANNES, GRENOBLE, LYON, MONACO, NICE, PARIS (all arrondissements) plus 92000 postal code, STRASBOURG, TOULOUSE or MARSEILLES...'

The Business Column

Secrets of success for the Japanese

One of the great British entrepreneurs of the 1950s and 1960s was Dr Daniel McDonald of BSE, who created a world-beating business in the manufacture of record changers. By going for massive volume and low cost, he won the custom of most of the leading record-player producers, including the Japanese. It was a classic example of the cost leadership strategy. Nowadays the vision and ambition which Dr McDonald displayed are far more evident in Japan than in Europe or the US. Many Western manufacturers shy away from high-volume, commodity-type products, in favour of one-off or small-batch operations with a product tailored to the needs of individual customers and commanding a higher margin. No doubt a low-volume, high-margin strategy makes sense in many cases. But one cannot help recalling the response of the British motor cycle makers to the advance of the Japanese in the 1960s. They kept on retreating "up-market" in the hope of insulating themselves from low-priced imports. But the Japanese followed them upwards until there was no space left. The Japanese have a remarkable ability to identify market opportunities which call for products designed for high volume, low cost and acceptable but not extravagant performance. A striking example comes from machine tools, which was not considered an area of great Japanese strength until they saw the potential of CNC (computer numerically controlled) lathes. As with many technological advances, CNC lathes were first used in the US, where the product's advantages were most valuable. At that stage it was performance rather than price that mattered. The early customers tended to be large, technically sophisticated companies. It was the next phase of the product cycle that gave the Japanese their chance.

Simplification, cost reduction and price

As Staffan Jacobsson has described in *Electronics and Industrial Strategy* (Allen and Unwin, £28), the Japanese set out to expand the market for CNC lathes among medium-sized and smaller engineering companies. To meet this new market, the product had to be standardised, produced in volume to secure economies of scale and sold off-the-shelf, often through agents rather than direct to the customer. While European and American producers were focusing their efforts on large firms, the Japanese emphasised simplification, cost reduction and price as a competitive tool. There are aspects of Japan's industrial structure which partly explain this approach, notably the importance of the sub-contracting system whereby large numbers of small engineering companies supply the leading industrial groups. These small companies provided a natural outlet for the new CNC lathes, which the Japanese were designing. Another element was the strength of the Japanese electronics industry in making low-cost CNC devices to be fitted to the machine tools. It may also be significant that Japan has a small defence and aerospace sector, precisely the sector regarded as a principal outlet by the Western CNC lathe producers. In both the US and the UK the sophisticated demands of aerospace may have distracted attention from the much larger and ultimately more profitable market in the general run of engineering. According to Jacobsson, the Japanese share of world production of CNC lathes went from 15 per cent in 1975 to nearly 64 per cent in 1984, with the US as the main loser. The Japanese saw a market that looked capable of very rapid growth and invested accordingly. Western suppliers hardly recognised the existence of the market until the Japanese came sweeping past. Some European CNC lathe makers have focused profitably on the sophisticated end of the business and this remains a valid strategy. But it was the Japanese, with their cost leadership approach, who created a new market and went on to dominate it.

Geoffrey Owen

INTERVIEW

Putting himself in the picture

Alan Friedman meets Silvio Berlusconi, Continental Europe's 'Mr Television'

Silvio Berlusconi is having the time of his life. The 52-year-old Italian has ambitions that extend far beyond the commercial television stations which already make him owner of the world's fourth biggest private network after CBS, ABC and NBC in the US. And the best part, as far as this energetic entrepreneur is concerned, is that he is on his way to realising several of his goals. Seated on the lawn of his 200-acre estate on the outskirts of Milan, his jacket cast aside because of the 90-degree heat, Continental Europe's "Mr Television" eats a vanilla ice-cream and speaks with pride of his achievements.

For the past few weeks he has been dominating the business headlines in Italy, having paid more than \$700m cash to buy La Standa, the nation's biggest department store chain. The Standa deal will bring the total "aggregate" turnover of Berlusconi's Fininvest group up to nearly \$100m, although his aides admit that on a fully consolidated basis, group revenues come out at something closer to about half as much.

Berlusconi's interests, all contained in his unquoted and 100 per cent-held Fininvest group, now run from television stations that capture nearly 45 per cent of the national audience to his advertising subsidiary which handles 30 per cent of total national billings. They also include his real estate business, Italy's biggest, his insurance and financial services holdings, his 305-outlet cinema chain, and Milan AC football club. Also in the portfolio is his library of more than 200 Hollywood film titles, which is valued by Berlusconi's bankers at nearly \$3bn.

All of this is not bad going for the son of a Milan bank manager who spent his formative years as a tour guide, a photographer and a crooner of Frank Sinatra melodies in the coastal resort of Riccione, a sort of Blackpool on the Adriatic. Berlusconi got started with a loan from his father. He put together a series of property deals in Milan and soon built upon this modest success by reinvesting in bigger projects until, by the 1970s, he had completed his beloved "Milano 2" housing project for 10,000 people. His talent is to spot gaps in the market, albeit in different sectors.

For example, his television interests began as a modest local Milanese venture. His

financial services and insurance businesses have grown on the back of a national network of 2,500 agents. Thus, from housing to television to the insurance market he has made deals and investments that have turned out to be increasingly shrewd. He criticises demand to know where his funding comes from. He replies that it may once have come from bank loans, but today it comes from cash flow. "My formula for success," says Berlusconi, "is to be found in three words - work, work and work."

In Italy the ever-smiling Berlusconi is a folk hero, a man of the people who is saluted by thousands of fans when his helicopter touches down at a football stadium. When he arrives by land the fans surround his bullet-proof limousine and make his phalanx of armed bodyguards increasingly nervous as they scream his name. He responds with the

PERSONAL FILE

1936: Born Milan. Education: University of Milan (law).
1969: Begins work on "Milano 2".
1980: Canale 5 network begins broadcasting.
1983: Buys Italia 1 television network.
1984: Buys Rete 4 television network.
1985: Takes stake in La Cinqu Estelco TV network.
1986: Buys Studios Roma.
1986: Buys Milan AC football club.
1988: Buys La Standa.

"V" sign for victory. And he clearly loves it all.

Berlusconi is a leading member of that breed of new-style Italian entrepreneurs, the epitome of a self-made man who by his own admission likes to "start up businesses from scratch." In business terms he compares himself to Luciano Benetton, the clothing manufacturer.

But there is an important difference: Benetton had one shrewd idea that he transformed into a business with more than \$1bn of annual sales. Berlusconi has had several ideas, the most well known being to circumvent the Italian ban on anyone other than the RAI state television system broadcasting on a national basis by shuttling pre-recorded video-cassettes around 600 local relay stations and transmitting them simulta-



neously to create the illusion of a national network. Berlusconi's latest idea is to achieve "synergies" between his 400-outlet Standa retail chain and his television network. How? "We will offer packages to consumer product companies who advertise on television and sell at Standa and we will develop daily spots that feature bargains at Standa."

The retail market, for Berlusconi, represents a "tremendous growth area in Italy because there are only 20 hypermarkets in the whole of the country and there should be 250 of them." Using his real estate subsidiary on the one hand and television on the other, Berlusconi hopes to make inroads into Italy's L130,000bn (\$55bn) a year grocery market. "We will double Standa's sales within three years," he predicts.

"I sell enthusiasm," declares Berlusconi, who hastens to add that this enthusiasm is aimed at the "service market" of entertainment, financial, real estate and now retail services. He generates a flow of adrenaline that would fatigue many a lesser entrepreneur. He now works mostly from his 70-room 19th century villa, one of 11 homes he owns in Milan, Rome, Pescara, Pescara, Portofino, Sardinia and St Moritz.

The Villa San Martino, with its staff of 25 servants, secretaries, gardeners, drivers, helicopter pilots and stable lads for the horses, is like something from the set of one of his own films. The plain-spoken Berlusconi says he likes to hold business meetings at the villa, but there are also a few facilities for play. Among these is a private football field, helicopter pad, stables for his children's horses, indoor and outdoor swimming pools (the former equipped with a hot tub), a wall screen for viewing television from the water, a large gymnasium, sauna, steam bath, Swedish shower, massage room, California jacuzzi, and a rest area fitted out with nine television screens. These simultaneously broadcast shows from the television stations in Italy, France, West Germany and Yugoslavia which he either owns or supplies programmes or advertising for.

It is here at the villa that Berlusconi hosts an annual New Year's Eve party for family and close friends such as Socialist Party leader Bettino Craxi. And while many Italians

he might have to divest some of his interests. But a self-interested Berlusconi replies that this is wrong and that "the Italian press is the least objective in the Western world. Our newspapers are not written by journalists, but by industrial competitors with special interests." To his credit, Berlusconi does not interfere with the editorial content of his own national newspaper *Il Giornale*.

There is a great deal of the maverick in Berlusconi, and while not exactly a loner he certainly steers his own course. When, for example, leading private sector figures were invited a few months ago to take equity stakes in Mediobanca, the merchant bank bastion of Italy's Old Guard business elite that is symbolised by Gianni Agnelli of Fiat, Berlusconi declined. An aide explains: "Why should we have invested just to join the *salotto buono* (good drawing-room) of Italian capitalism,

just for prestige?" And Berlusconi himself says pointedly: "I don't need to go and join clubs or to frequent salons. My club is here and I work with family and friends."

In Italy he is a folk hero, a man of the people, who is saluted by thousands of fans when his helicopter touches down at a football stadium

who share the same idea of Utopia that I have."

Doing things on his own has also meant assuming a public share listing on the Milan bourse. "Why should I go public?" asks Berlusconi, adding:

"My cash flow is sufficient to take care of all investments." And the forthcoming priority investments in Italy will be in the insurance business and in retailing. On a Europe-wide level, Berlusconi says that he will complement his television interests with a move to win more advertising concessions and to increase his already substantial business selling packages of television programmes in France, Spain, West Germany and elsewhere. His latest coup came a month ago when he won exclusive rights to handle European advertising for Soviet television.

Because his Fininvest is not listed, it is impossible to engage in a detailed analysis of Berlusconi's balance sheet. But the break-up value of his assets is reputed to be higher than \$5bn. And that, after 26 years of empire-building by this unique Milanese merchant, is not bad.

Beyond Section 28

No single provision in a contemporary British Act of Parliament has aroused as much anxiety about its supposed impact on the social and cultural scene as Section 28 of the Local Government Act 1988.

Yet this law, which seeks to prevent UK local authorities from spending their ratepayers' money to further the cause of homosexuals, has the most marginal legal consequences. It is, in short, an attempt at censorship by unenforceable threat. Section 28 provides that a local authority shall not intentionally promote homosexuality or publish material with the intention of promoting homosexuality. The provision does not impinge on the content of published literary works, dramatic performances or films screened in public. It is aimed at those local authorities which might feel inclined to engage in propagandising, directly and intentionally, on behalf of homosexuality. Funding the arts out of local rates for artistic works which contain homosexual characters or themes is wholly outside the reach of the law. What then is caught by this statutory censor?

The key words in Section 28 are "promote" and "intention". Promote, to the lawyer's way of thinking, is to further, advance or bring about the increase of something. In a House of Lords' decision a decade ago in a case involving an election, promoting the election of a candidate was held to mean "improving his chances of being elected".

It follows, therefore, that for a local authority to promote homosexuality it must engage in some activity which has the consequence at least of increasing the number of homosexuals in its area, or of increasing the chances that persons will become homosexuals as a result of the activities. Even



then there may be insufficient evidence to attract the law's embrace, since what is not permissible is the promotion of homosexuality, which denotes an abstract condition rather than an act of sexual intercourse.

There is another obstacle in the way of the eager prosecutor in respect of some artistic event which is being financed by local authorities. Section 28 does not prohibit the promotion of homosexuality. What it prohibits is the intentional promotion of homosexuality. And the intention must be on the part of the promoting local authority. It is not the intention of the author, artist, actor, film maker or theatre producer that is in question.

The law about intention is tolerably clear if an action is taken with the motive or desire of bringing about a desired consequence, that consequence intended. Persons may intend to achieve a desired consequence, where although it is not desired, it is a very likely consequence of their action. In the present context, the consequence intended would have to be an increment in homosexuality.

desired or was well aware of the fact that its action would result in increased homosexuality.

In reality, local authorities which make grants in order to advance appreciation of the arts do not thereby intend to propagate the activities of the funded artist. The intention is not to promote the activities, whether they be films portraying a bank robbery or crocodile shooting in the Northern Territory of Australia.

Whether a play or a film can be said to "promote" a particular matter may depend upon a careful analysis of its treatment. The act of funding a theatre of cinema which might show a film that did, objectively speaking, promote homosexuality is too remote to amount to a fixed intention on the part of the donor or funds for the theatre or cinema.

The effects of Section 28 have been widely and wildly exaggerated. They have even been misrepresented in some quarters. There is no support for the supposed fear that the section would prohibit any local authority funding the arts in precisely the manner that it has done in the past. Only an entirely new proposal to fund an artistic activity might need to be examined carefully.

Strictly speaking, though, Section 28 is not a censorship provision. Local authorities who are otherwise bound in law to finance a particular activity cannot legitimately excuse themselves from future funding on the grounds that homosexual themes are being portrayed in the theatre or cinema. Given the extent of public misunderstanding of the scope of Section 28, however, local authorities may nevertheless seize on such an excuse to threaten withdrawal of funds. If so, Section 28 might not have the marginal effect that a strict reading of the law would indicate.

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